THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 72, No. 9 August 7, 1943

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly; The Pocket Statistician, Adjustable Stock Ratings, issued monthly; and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

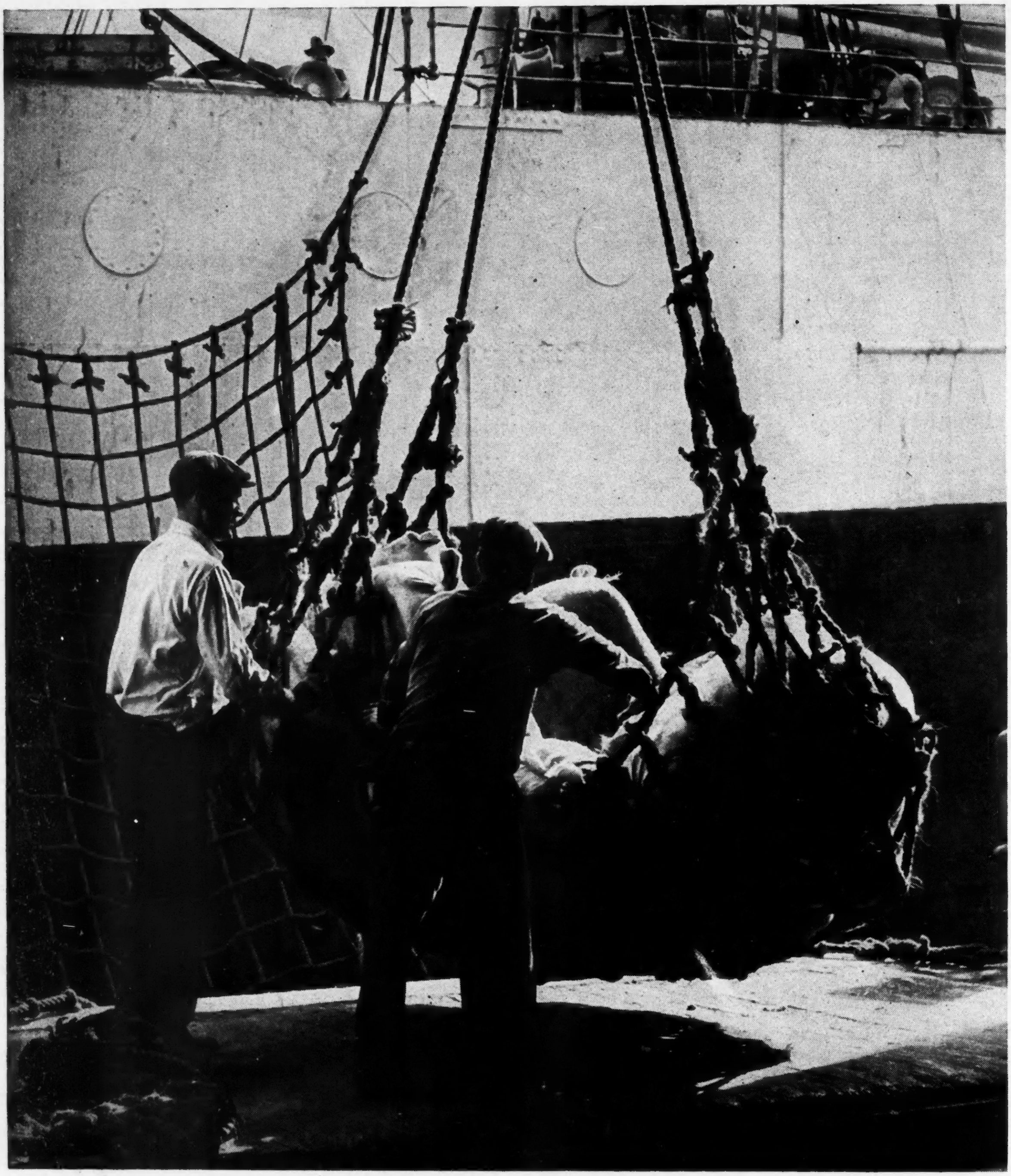
Cover From Westinghouse

SUBSCRIPTION PRICE—$10.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, E. C. 4, England.

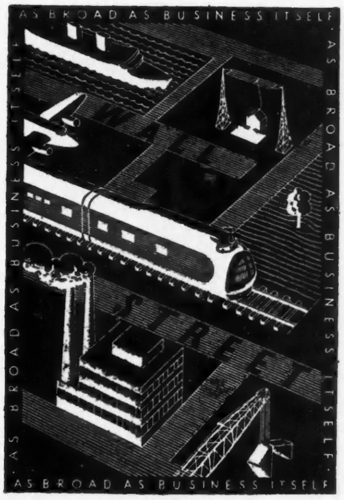
Cable Address—Tickerpub.



Shipping in New York Harbor in wartime. In tonnage New York has long surpassed London as the first port of the world, even in times of foreign trade depression. The drive for export trade has become crucial for Britain if her standard of living is to be comparable with pre-war basis. She is bending every effort to assure that recovery today. Why the United States is almost equally concerned is shown in a summary of the coming struggle for exports on page 451.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

COMING HOME-FRONT MOVES . . . The significant domestic implications of the President's speech concerned the promise that the soldiers shall not return to an environment of "inflation and unemployment." He asserted that plans must be prepared now for smooth transition. But, preceding that, the government is drawing up moves concerning food and manpower, and within a few weeks we shall be cognizant of executive recommendations to Congress in this respect. It is clear that this implies some compulsory mobilization of manpower beyond that now envisaged, and that this, by determining the reward and disposition of labor forces, must have as its corollary, close administration of the price and disposal arrangements concerning food. There can be little hope for the exponents of uncontrollable inflation, and thus this formerly fashionable talk no longer dominates markets.

The security and commodity markets must remain in an expectant mood until the foundation of all values, the level of prices, will be revealed by new and concrete governmental action. The one indeterminate element is the attitude of Congress, but it seems likely that a visit to the constituencies has shown the average representative that whatever may be the opinion entertained of the merits of our domestic administration, the average voter prefers legislative and executive concord to the constant spectacle of bickering and politics which have so lowered the tone of Government and been so injurious to that serenity necessary to implement any economic policy in wartime. Until the Roosevelt policy is announced, the inflation-minded can rely only on general theories or on the vague belief that postwar inflation, concealed by edict during the war, must somehow manifest itself when some semblance of free economy is again with us. Both are too vague and hypothetical for sensible investors to tie to now.

THE ITALIAN ECONOMY . . . Certain underlying trends in Italy, which preceded the shabby exit of Mussolini, have not been given much space in the newspapers. The central fact is that the greatest part of Italy's industrial population is employed in textile manufactures, mostly working cotton. The war, by reducing their raw material to a trickle, brought about attempts to substitute by synthetic wools and rayons, but here too the shortage of intermediates has limited production. On the other hand, the fabrication of war materials, due to a total absence of iron and coal, has required great transportation differentials and undue dependence on an ally. There was thus neither a civilian economy possible as an alternative nor a war production possible as a temporary expedient, once an independent course had to be pursued. Rarely has any country been so devoid of economic maneuvering space. Hence the slightest internal difficulty made the domestic situation unworkable.

To those who deny prophetic power to stock ex-

changes, the action of the Italian bourses would be a complete refutation. When the Allies put the exchange value of the lira in Tripoli at 480 to the pound, or 120 to the dollar, it was confidently expected that this would accentuate the stock market rise in Italy itself, since it confirmed the inflationary position of the lira. Not at all. Industrial stocks declined drastically. War stocks dropped more than any other industrials.

At last, when Sicily was invaded, the market turned panicky, sacrificing every war stock but bidding up those which would be dependent on British supplies of Egyptian and Indian cotton and on American cotton as well, and on peanut oil from French North Africa. Another interesting index, after the Allied advance at El Alamein last November, was the rising bidding for options on durum wheat, all imported from America or the Ukraine, which is essential for making macaroni products, together with a lessening premium for domestic wheats which are used for bread. Apparently the centuries old training of merchants in Venice and Genoa still governs the intelligence of their present successors in Italian bourses. Business men remain the most intelligent forecasters, proving by their actions that they are more aware of the realities than are the theorists lost in a jungle of phrases.

CASH ASSETS . . . The Department of Commerce estimates that liquid assets of individuals and business concerns will increase by approximately $50,000,000,000 this year or by as much as the combined gains of the two preceding years—thus bringing the accumulated total to the astronomical figure of $100,000,000,000. Under "liquid assets" the estimate lumps bank deposits and savings in the form of war bonds and currency.

Projecting a further rise by tens of billions as long as the war lasts, the Department points to the post-war inflationary potentialities of this "prospective mountain of accumulated liquid assets" and argues that the danger "can be avoided chiefly by placing the further financing of the war as largely as possible on a pay-as-you-go basis."

Although the national income has vastly increased, the distribution of the increment is very uneven. While precise statistics are lacking, probably at least a third—and possibly even half—of all gainfully occupied persons have had no increase in income over the pre-war year 1939. For that reason no further *major* tax rise of horizontal nature is feasible; and it is doubtful if Congress will impose the much discussed personal "excess income" tax. Since it is agreed that no tax increase will apply to 1943 income, the projected figure of $100,000,000,000 of liquid assets by the end of this year will stand, and higher taxes in 1944 would only modify further increases.

But do we need to quake with alarm? This publication does not think so. It doubts that this accumulation is nearly so inflationary as it is officially supposed to be. Its existence betokens thrift and prudence on the part of individuals and business firms. Need we assume that people who are prudent in war-time will automatically become profligate fools in peace-time? This great private fund can be the means of financing a long period of sound post-war prosperity—if individual and corporate investors have confidence in their Government's policies and the future of private enterprise. Governmental encouragement of the productive uses of these savings may be more badly needed after the war than measures of repression.

Please do not be disturbed if your magazine does not reach you on schedule, since it in no way affects the service rendered by our publication, for the Editorial Staff has taken this contingency into consideration when formulating analyses and advice.

As you are aware, the congestion of mails in the Post Office due to war-caused shortages in certain local areas is now being remedied and we hope for more normal conditions in the near future.

C. G. WYCKOFF,
Publisher.

CHANGING OIL PROSPECT . . . The petroleum industry is urging the Government to work out a more balanced world program of oil supply for the United Nations' fighting forces in order to relieve the strain on our own reserves. It is to be hoped that this matter will receive prompt consideration.

Up until recently the primary bottleneck in oil was transportation: shortage of ocean tankers and inadequate alternative transport facilities to get oil to the eastern seaboard. As a result, military needs —necessarily making use of the shortest routes to England and Africa—drained the east continuously of a major portion of its oil receipts. As a further result, motorists in the eastern states had to be put on far skimpier gasoline rations than those in the rest of the country.

True, military oil consumption will increase further with coming large scale offensive actions and civilians will have to leave this calculation to official authority. But it is probably a reasonable assumption that very large reserves have by now been built up in all major Allied bases. Moreover, the submarine menace appears to have been liquidated; the Mediterranean is now open to Allied shipping; the number of ocean tankers has been largely increased and is continuing to increase; and the "Big Inch" pipe line to the eastern seaboard has been completed.

It would thus appear possible in the near future, if not immediately, to draw substantially upon the oil resources of Venezuela, Colombia and the Near East for war uses, while both conserving our own domestic reserves and equalizing gasoline rationing on a national basis.

As I See It! BY CHARLES BENEDICT

WHICH SHALL IT BE— DEMOCRACY or COMMUNISM?

EVENTS in the last two weeks have brought to the fore the desperate struggle that is going on between Democracy and Communism for the control of Europe. From now on we can expect the military front to take second place, as the battle of wits increases in tempo.

Mussolini's collapse has complicated the problem of the Allies. If Italy breaks with Hitler and obliges the Nazis to retire to prepared positions in northern Italy, chaos is bound to result which will not only complicate the situation for our armies but upset our diplomatic calculations as well. Since Germany would, in this event, remove all foodstuffs, our invasion forces would be under the serious handicap of having to feed and look after the Italian people; and any measure instituted to produce order and stability would even alienate the people and turn them against us.

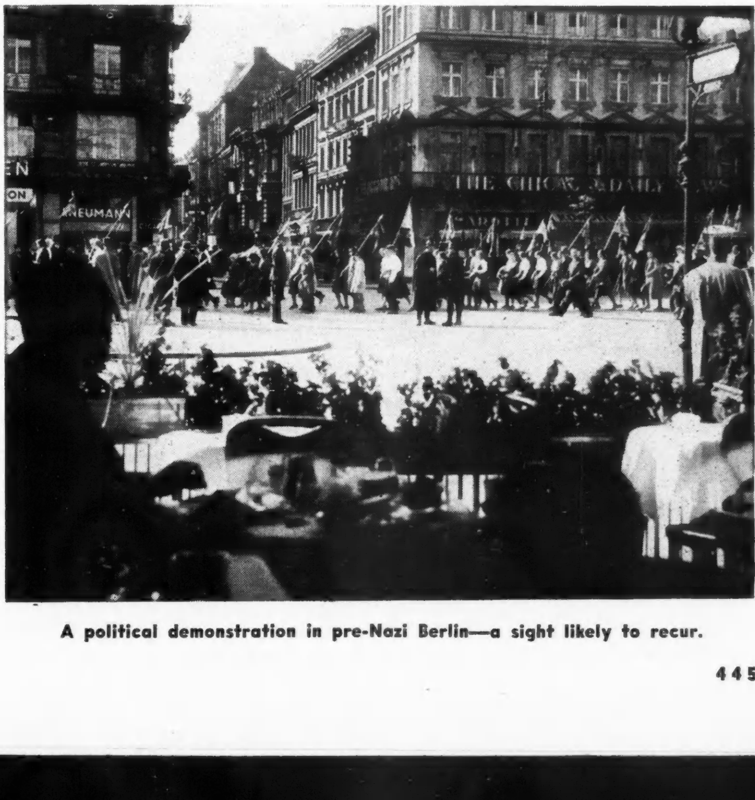
At the same time the defection of Italy would weaken the Nazi position on the Balkan front, which is being held mainly by Italian divisions. This would force Hitler to move men from Russia or to shorten his lines, and would give Russia the opportunity she has been seeking to cut through into the Balkans.

The German Manifesto from Russia was Stalin's offer of better terms than the Allies have thus far made to the German people, in the hope of preventing an Allied coup which would enable them to reach Berlin first.

The sequence of events following the invasion of Sicily leads to the conclusion that Stalin is definitely bent on a Communistic Europe. Following issuance of the German Manifesto, it is interesting to note that the Polish, Belgian and Czechoslovakian governments (maintained in London) recognized de Gaulle whose organization, as we all know, is bound to Stalin. This can mean several things: that Stalin has called on Britain to make a gesture in his direction because of their 25-year agreement or it could mean that these governments in exile are hoping to protect themselves by cooperating with Russia in an attempt to place themselves in a position to protect their own interests no matter who wins.

The latest move has been by de Gaulle himself, who has been demanding recognition from the United States Government on the ground that he wishes France to participate and take part in the settlement with Italy. It can readily be seen how dangerous it would be to permit the Communists, affiliated with de Gaulle, to take part in planning the future of a post-war democratic Italian state.

All these manoeuvers are producing a delaying action, which Stalin may well hope will give him the time to break through into the Balkans and Germany. The Manifesto plainly sought to appease the militarists, by agreeing that Germany should not be disarmed. It catered to the industrialists with assurances that private enterprise would be kept intact. It placated the German people as a whole by promising that private property would continue to exist as heretofore and that the German people would, by inference, not (*Please turn to page* 496)



A political demonstration in pre-Nazi Berlin—a sight likely to recur.

What Market Action to Take Now

After fifteen months of advance founded mainly on post-war potentials, the crystallization of peace hopes found the market vulnerable. We believe reaction will go further in points and time, providing in due course an outstanding opportunity for selective purchases.

BY A. T. MILLER

Insofar as their specific form is concerned, the recent war developments which have turned the stock market downward were, of course, a surprise to us as to everyone else. But it is not a surprise to us—or to readers who have heeded our previous recent analyses of the market prospect—that *some* change of major importance in the war's trend could come about this summer and that it could knock prices down very considerably.

We could not know when this would come. We thought it more likely for late summer or autumn than for mid-summer. But allowing both for the possibility that it could come at any time and for the great advance—without more than minor recessions—which the market already had had, we advised against purchase for either intermediate or longer-range objectives.

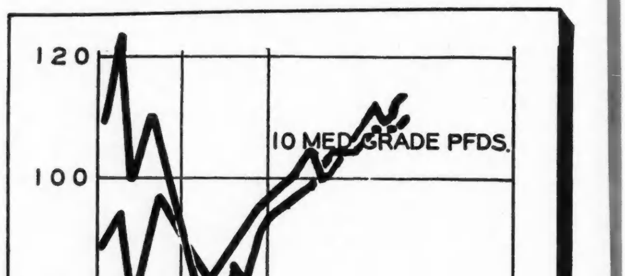
A fortnight ago in these pages I stated:

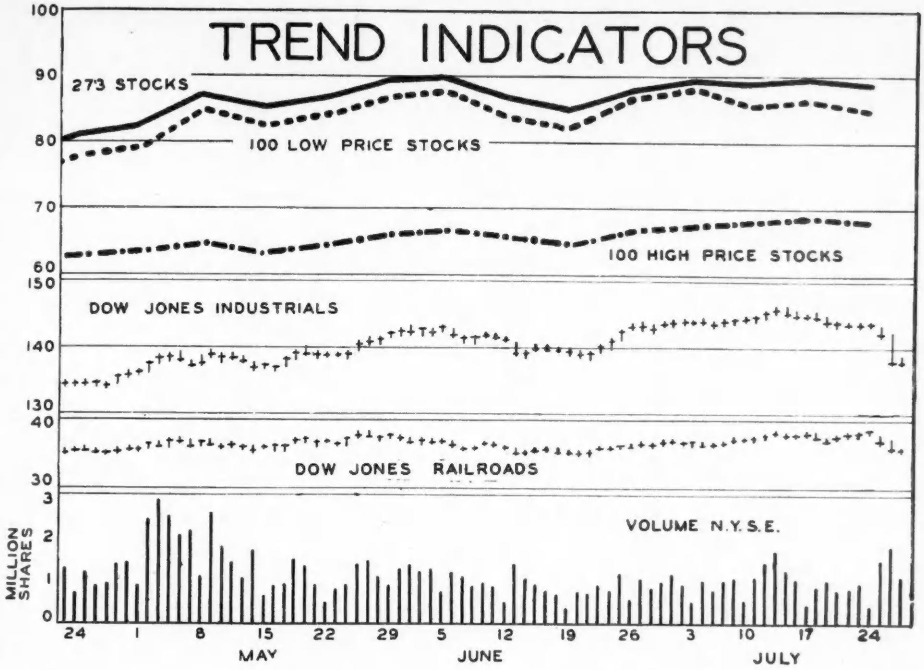
"When peace becomes a more tangible and nearby prospect, one would expect a period of adverse market action because (1) the good news will have been discounted and (2) the less roseate aspects of traditional economic and industrial readjustment in the early post-war period will have to come in for more serious attention."

On the other hand at the time that was written, the industrial and rail averages had but recently made new recovery highs—indicating, as did other technical evidence, that demand for stocks in the aggregate was still exceeding the supply for sale. On the question of when to cash speculative profits in anticipation of an intermediate reaction, all experience tells that the only practicable course is to "let the market tell its own story" or to sell promptly when and if adverse news of major importance actually develops. Neither such news nor a "sell at once" technical signal can be timed in advance; and all speculators and speculative-investors have had the experience of selling prematurely on "judgment" or "common sense." In a bull market the mathematical odds at any given time are heavily that speculative sales will prove more or less premature, though we know that sooner or later there will be a "right" time to sell.

Therefore, while on summer or autumn war potentialities one could conclude that prudent judgment dictated avoidance of investment purchases—or any kind of purchases other than those on a short-term trading-risk basis, which should always carry the insurance of stop-loss protection or willingness to reverse one's opinion promptly—it could not be "reasoned" two weeks ago (nor detected from market action) that the market was then within a few days of the start of a news-produced intermediate reaction.

We therefore advised sitting tight on profits, pending technical evidence of an intermediate top, since the short-term odds appeared to favor somewhat higher prices. We regret, but can not help, the fact that Mussolini did not do us—and our readers—the favor of withholding his "resignation" for one





week. It is characteristic of our SEC-regulated market that important declines occur only at rather infrequent intervals but that, once started, they move very rapidly. Hence, even within the two-week period between our publication dates, a "news break" can do considerable damage to prices.

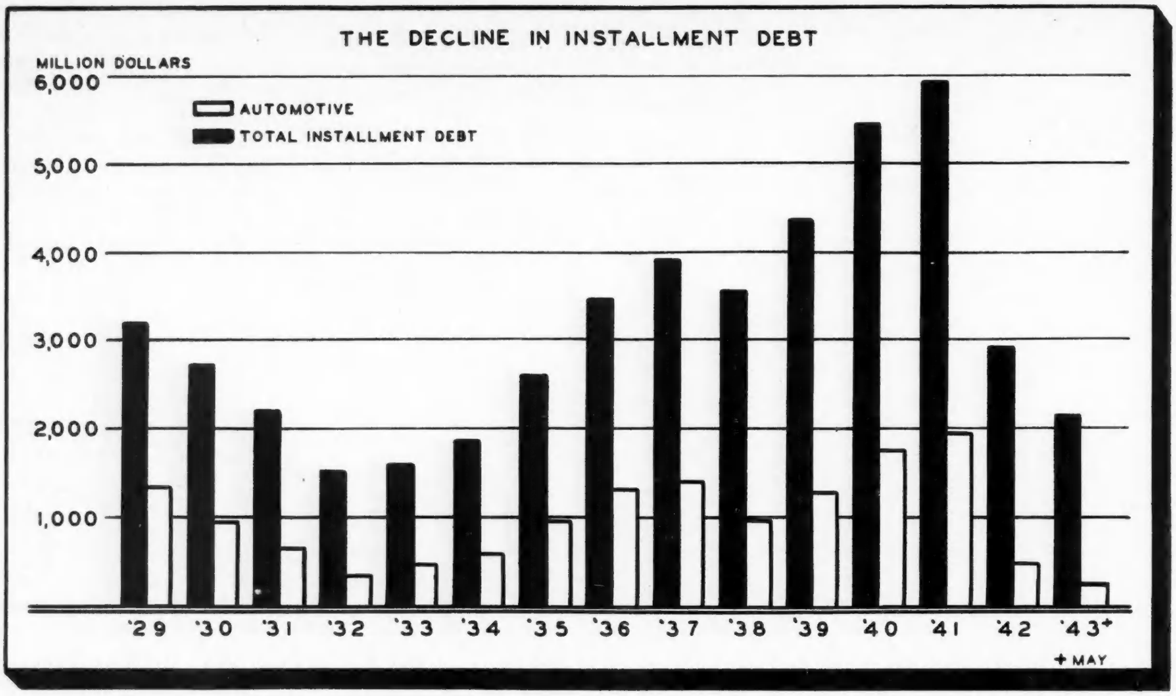
By the time you read this analysis, depending upon where you live and the speed or mail deliveries by the Post Office, the market will have been discounting Italy's "resignation" from the war for ten to twelve trading sessions. It has been doing so for seven trading sessions as we go to press; and, in reaction from bull market high of 145.82 in the industrial average closing price basis) it has already decisively broken through the technically significant 138 level.

Perhaps you have already lightened up on your own judgment. If not, our advice as regards speculative profit-taking must now be qualified. If there is a nose-dive, it would be possible by the end of the present week that the greater part of the total reaction will already have been experienced—in which case selling would be foolish. In our opinion, the probable minimum expectation is decline to around the 130-128 level of the industrial average. That would be, roughly, 11 to 12 per cent off the high; would approximate (at 130) the low of the "minor" reaction in April; and would be a cancellation of approximately one-third of the total rise from bear market low of 93 in late April of last year. Should early developments in the Balkans or Russia, or (more likely) both, heighten the general expectation of early peace in Europe, we would not want to stand too rigidly on the idea that the 130-128 level is invulnerable.

If, when you read this, the industrial average is around or above the 133-135 level, we would suggest at least partial profit-taking on speculative committments previously recommended in our pages. In our July 10 issue we presented reappraisals of several dozen low-price stocks which, compared with approximate prices when recommended to our readers, then showed very handsome profits. The profits are still large—50 to 100 per cent or even more in many cases. Excepting as regards a minority of them as individually discussed in the July 10 issue at a length which space does not permit us to duplicate here, we suggested that holders get into a profit-taking frame of mind, watching the market closely. We would sell now, as was individually indicated, provided that before you can get around to doing so the market has not fallen close to or below the 130 level.

As regards buying policy on this reaction, the problem is far simpler than that of profit-taking on existing holdings. If you have idle funds awaiting investment, we believe it probable that there will be no need for haste. This is not primarily a "technical" reaction. It is predominantly a cash market with a very light margin position. Yet many stocks in which speculative interest is almost non-existent—du Pont, for example—are down sharply. On balance, cash now looks more desirable to investors—and speculators—than stocks. To reverse this consensus will take both the establishment of prices that are more attractive on an investment basis and time for psychological adjustment. In our opinion, culmination of this kind of intermediate reaction is likely to be marked by a period of dullness and sidewise movement of the averages.

It may well be—depending upon market action meanwhile—that in our next analysis a fortnight hence we can concern ourselves mainly with the matter of individual stock selection. Our fundamental viewpoint is, of course, bullish. We expect that the transition period of adjustment from war to peace will be followed by an extended period of prosperity; and that selected stocks will again begin to discount this long before industrial reconversion is finished —indeed even before it starts. Only a minority of listed companies will have any actual reconversion problems, though it is a sizable minority. A great many stocks are ready for peace, whenever it comes, in everything except price—and adjustment of investment and speculatiove psychology. — *Monday, August* 2.



DRASTIC DECLINE IN PRIVATE DEBT

With Tempo Steadily Increasing

BY H. M. TREMAINE

THE spectacular increase in the debt of the Federal government has created the sentiment that the tendency to run into debt is characteristic of our age. Jeremiahs are not wanting who point to an absence of foresight, of a growth of extravagance, as undermining the national character and injuring its economic foundations. What has been characteristic of the epoch since 1929, however, has been the exact opposite. The American people, whether in their corporate, private business, private affairs or consumer capacity have both relatively and absolutely reduced debt at a rate never before known. Not only is this true of the citizen in his private capacity: in so far as state and municipal government is concerned, it is also true of his civic capacity. The Federal government alone has added to debt, while every other debt-incurring organism or person has managed theirs. It is open to question whether they have not so much added to economic capacity by their sane economic practices, that they have unconsciously furnished the funds on which extravagant legislators in Washington could batten. But the great contrast is there: the American people more thrifty than ever before; the government at Washington more lavish and local government more careful.

Private debt in the United States consists of long-term bonds, mortgages, notes, short-term finance paper, installment paper and charge accounts in retailing. In 1930, at the opening of the depression era, the total private long-term debt called for the expenditure of 5,055 million dollars per annum. Before the European War, that is at the end of 1938, those debt charges had been cut to 3,900 millions, a reduction of nearly 23%. Urban and town mortgages paid 2,860 millions in 1930 and 2,130 million in 1938, and farm mortgage interest (that nearly sunk our entire economy at one time) fell from a high of 568 millions in 1925 to 397 millions in 1938. Railroad debt interest fell from 600 million in 1930 to 550 in 1938, public utility interest from 615 to 555 million in the same time but the record of reduction is set by industrial corporations which reduced their debt service from 445 to 266 million in a decade of depression and perhaps of no net earnings! This was the record before the armament stimulated revival, and in a period when there was little net production advance.

Expressed in capital terms, that is in the face value of debt, total private long-term debt declined from 89 billions in 1930 to 73 billions in 1938.

Here, nearly four-fifths concerned mortgage cancellations, farm mortgages, for example, declining by about 25% and railroad nominal debt a mere 3%. This is not so important an indication since the railroad maintenance of gross debt, but diminution of interest charges, shows that refunding operations had been extensive. Public utility nominal debt showed no decline, but their interest charges went down drastically; but industrials, again, showed even nominal debt down by some 12%. But what was true of corporations was more markedly true of individuals. In 1929 out of total retail sales, 13.5% were on an installment basis, by 1937, the peak year of decade prosperity, the American buyer was tempted only to the extent of 11.5% of retail sales, preferring to pay in cash, and even the first flush of re-employment and high wages in 1940, with a new crowd of workers who tasted prosperity for the first time, brought it down to 11%, or in cash terms from 6.5 to 5 millions, a reduction of a fourth.

Thrift and Foresight of Buyers Advance

From 1929 to 1940 retail merchants charge account credits sank from 4,564 millions to 3,840 millions but gains in intermediate financing agencies and cash lending agencies offset this, so that from 1929 to 1940 total short-term consumer and private debt, increased from 8.2 billions to 9.2 billions, or a *per capita* increase of something over 3%. In proportion to adult wage-earning population, though, there was no net increase *per capita.*

As to local government, including the states, interest payments on their debt rose from $801 to $840 in the decade, a remarkably conservative record when one remembers that it was an era when the states and municipalities were compelled to assume all sorts of emergency functions. In the same period Federal debt interest payments had increased from 678 millions to 1,041 billions (through 1940). That is, counting the reduction of private debt interest as over a billion per annum in the Thirties, and the addition of merely 350 millions per annum in Federal debt, the American people entered the Forties with a net reduction of over 600 millions per annum in debt interest payments. Hence the sturdy position of the country when it was called on to meet the terrific expenses of global war.

During the last four years, the rise in employment, production, and national income has been unprecedented. The payroll index has doubled. In fact from the opening of 1939 to May, 1943, the index of cash payments to workers rose to 215%. Yet in that time short-term private debt rose from 33.8 billions in all (including bank loans for commercial purposes to take care of trade expansion) to 40.3 billions, pre-Pearl Harbor, and then receded in 1942, when industrial production really got under way, to 38.3 billions. Farm mortgages (gross debt that is) actually continued to *decrease* despite the increased needs for farm production which was a complete reversal from farmer behavior in World War I. Urban mortgages rose by some 9%, mostly in areas of war construction. Corporate indebtedness continued to fall, this time from 43.4 to 40.7 billions, but now the rails took the lead in their reduction. The general picture showed a slight decline in private debt. State and municipal debt also remained static despite the pressure of war needs.

But, if one abstracts urban mortgage growth in defense areas and commercial loans, and concentrates on the American consumer as such, it will be seen that prior to the European War outstanding consumer debt was 7.5 billion and at the end of 1942 was 6.1 billions and the tendency has since been accelerated. In other words, consumer debt fell by almost 20% while payroll income doubled. In proportion, the ratio of consumer debt to weekly income fell from 100 to 40. It had increased absolutely until the end of 1941 and then declined sharply. The common explanation is that the inability to purchase or sufficiently to utilize automobiles, whether new or second hand, is the primary explanation.

But the figures show that the tendency is general. Charge accounts declined by 23% in department stores from 1941 to 1942 and installment accounts in the same stores fell by 39%. Jewelry, whose gross sales have advanced as never before, and in which there was abundant consumer supply and demand, saw an installment decline of 43%. Durable goods like hardware and automobile accessories were harder hit. Part of this decline was due to want of supplies, part to regulation W limiting installment sales, but basically, the tendency of the consumer has been to pay cash increasingly in proportion to cash income received. Cash sales rose more than in any previous year.

In order of their reduction of nominal funded debt in 1942 the railroads present a fine picture. Atlantic Coast Line reduced its liens by 8.85%; C.

Debt Reductions of Leading Corporations

RAILROADS (Since 1929, long-term trend)

	Debt Outstanding (Millions)		Reduction
	1942	1930	in %
Atlantic Coast Line	145	157	8
Ches. & Ohio	211	233	10
Erie	205	271	24
Great Northern	314	356	12
Illinois Central	345	360	4
Louisville & Nashville	223	239	7
N. Y., Chi. & St. L.	130	159	19
Reading	113	138	18
Southern	262	300	13
Southern Pacific	707	822	14
Union Pacific	72	247	65

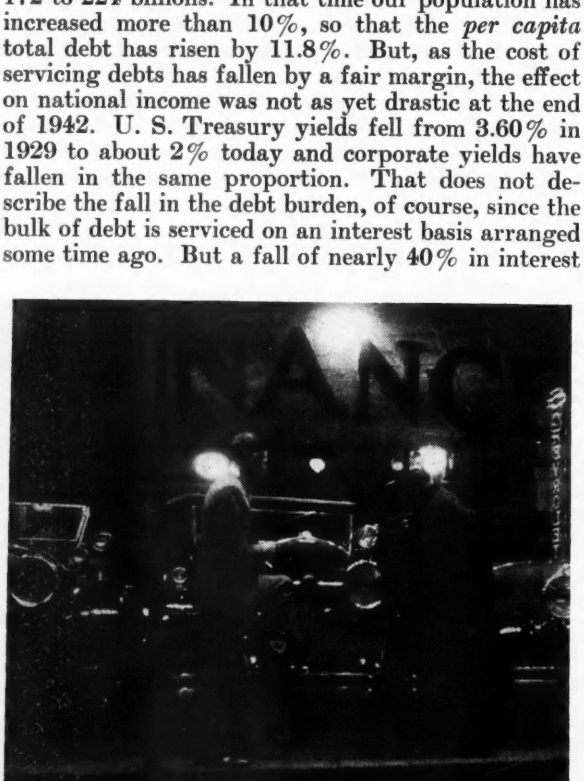
INDUSTRIALS (Since 1937, short trend)

	1942	1937	
Anaconda	....	66	100
Armour	63	82	23
Goodyear	40	53	25
Int. Paper	54	89	39
Paramount	24	54	55
Phelps Dodge	13	21	38
Swift	22	38	42
U. S. Rubber	34	50	32
Warner Brothers	46	73	36

B. & Q., by 8.27%; Southern Railway improved 6.78%, Atchison 5.65%, Canadian Pacific, long burdened by excessive debt, 7.31%, Great Northern by 6%. Second-class rails like M. K. T. began digging out, reducing by 6.5%, New York Central (the company, not the system) by 6.15%. In 1943 this tendency is gaining momentum as is shown in the B. & O. tenders this spring. Open market operations, tenders, refunding, and outright par or call retirements have all contributed to fortify the junior equities of the rails. Bank loans have been reduced largely, thus diminishing the chronic short-term financing needs. The rails have not been in a better position since the Twenties, and relative to present, temporary gross income, never in a better position.

If the rails have another year or so of excellent earnings and several years of post-war satisfactory earnings, and the government is able to maintain a reasonable cheap money policy, then it is possible that rail debt interest may decline to 400 millions a year. The savings of 200 millions per annum from the one-time load will greatly aid the resistance of common stock earnings to poor earnings years and generally advance their investment status.

The net result of the decline in private and increase in Federal debt was that the general transfer of interest to long-term creditors has not advanced at anything like what popular fancy conceives. The total private and public debt of the United States rose from 1929 to 1942 (year-end figures) from 172 to 224 billions. In that time our population has increased more than 10%, so that the *per capita* total debt has risen by 11.8%. But, as the cost of servicing debts has fallen by a fair margin, the effect on national income was not as yet drastic at the end of 1942. U. S. Treasury yields fell from 3.60% in 1929 to about 2% today and corporate yields have fallen in the same proportion. That does not describe the fall in the debt burden, of course, since the bulk of debt is serviced on an interest basis arranged some time ago. But a fall of nearly 40% in interest rates, indicates that a *per capita* increase of 11% in gross debt was not accompanied by any increase in the interest burden to the American producer. It is this completed picture that tells why the rise of the Federal debt alone, has not as yet been as serious in its effects as the nominal debt figures imply.



Purchasing a car on time payments, before the present government restrictions on installment buying.

What is the economic effect of debt? It may be argued, and often is, that debt is not a burden. It is a transfer within the economic system and the recipients of interest either reinvest or consume. An external debt is admittedly a true debt, since there is no necessary circulation of money to take care of its service. But, it is thought, if installment sales are brisk, then employment is increased in the consumers' durable goods industry, and so the country is enriched by installment debt, and not impoverished as the sober warnings of savings banks executives would indicate.

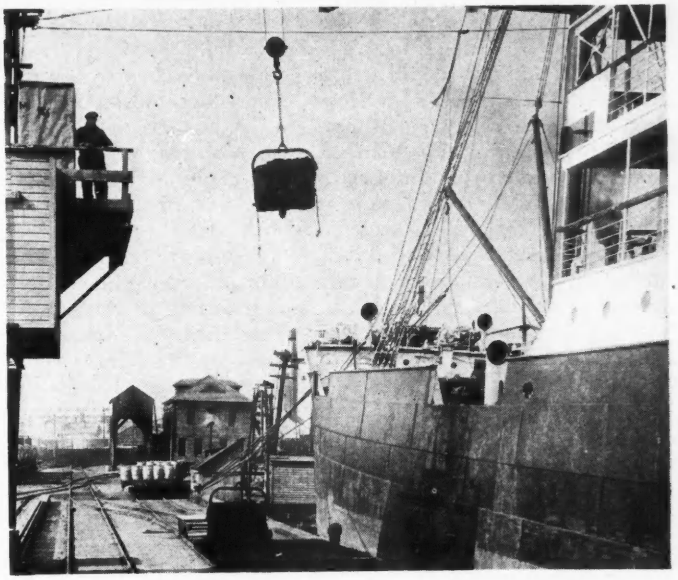
Upon installment sales we have founded the American automotive industry, the furniture trade, refrigerator and radio and piano sales, vacuum cleaners, and washing machines. What then is the significance of recent reductions in consumer debt? Will the consumer turn to cash and thus limit production? Or is he merely forced to reduce installment commitments by the government hostility to civilian expenditure and will his thirst for installment buying be all the greater when the permission is granted and the appropriate production resumed?

Future of Installments Moderate

The habits of the American people cannot be changed by this three-year reduction in installment buying. It is true that they have accumulated the greatest amount of savings on record. It is true that out of cash reserves alone they could purchase enough consumers' durable goods to keep industry humming for a long period. It is true that part of their abstinence, also, has been compulsory, that is they have not been able to spend except for luxury items and ladies' apparel. But, when the war ends, the spectre of unemployment, and the need to provide for the inevitable end of a cycle of high wages, will be ever present. This combination of the need for a high standard of consumption goods and a wariness of the remote future has popularized the installment system in the past and will recur. But one can confidently state that years of cash payments, and their evidence that goods are purchasable at a good discount for cash, will be particularly strong when we enter a buyers' market once more. No one can predict the issue of a contest between cash habits with its buyers' advantage and the temptations required by selling pressure.

If the national income diminishes by 10%, cash buying will diminish by more than 15% (based on mercantile experience) and it will be necessary to stimulate demand to maintain turnover. It will be several years before the automobile financing, though, takes on anything like past proportions, but household furnishing finance is likely to reach new heights when the soldiers return, as it did in 1919. Mortgage financing will depend on the government policy toward construc- (*Please turn to page* 488)

The Battle for Foreign Trade Has Begun



A foreign trade scene on a New Jersey dock.

BY GEORGE B. COLLINGWOOD

At least a dozen important countries in Europe are largely dependent on the export of manufactured goods, while on this continent, the United States is partly dependent on such exports for its net corporate profits rather than for the maintenance of industry as such. Over forty important agricultural, colonial, mining countries are actually dependent on the exports of raw materials for their very life. Foreign trade, which has been on the margin of American attention, is in the forefront of economic policy of almost every other nation. The agricultural policy of our neighbor, Canada, is intertwined with world trade. Argentine politics are a mystery unless its export situation is known. This basic economic relation of all mankind must be re-aroused after the war. Yet the changes wrought by the war and the decade of depression and rearmament that preceded it, have not been fully assessed.

We Americans have begun a series of reciprocal trade agreements to channel a confidently expected large export volume. Throughout the conflict, when the enemy bombers laid industrial Coventry waste and demolished the superb docks at Liverpool, the British manufacturer never lost sight of the future export market. He kept production ready for it: he nurtured old connections abroad, he sought to replace enemy connections wherever possible.

Britain's trade had declined tremendously in the decade, mostly by her own conversion to mild protectionism. Its loss was balanced by rearmament, but no sane manufacturer relied on that temporary and anti-economic activity to breathe life into British trade and employment. On the continent of Europe the Nazis engulfed all industry to make it tributary to their export needs. In the Orient native industries were developed to counteract the expected drive for exports of the industrialized nations. In all of the colonial nations there has been a marked tendency away from unilateral dependence on a limited number of exports.

What do these changes portend for the struggle for exports? Will the industrialization of the colonies change the character of exports from the older industrial nations, and for a time, take care, internally of their total consumer needs? How has the financial shock of war affected the capacity to export? How about the loss of creditor position? What will be the consequences of a reaction from autarky and excess protectionism to freer trade? These questions basically concern the relations of the British Empire and the United States for decades to come.

Until 1913 Britain was the central trader of mankind. One-half of all exports and imports, wherever conducted, used the Sterling bill, or more plainly, bankers' drafts on London, with which to complete their accounts. Next came the Mark, then the Franc and fourthly, the American dollar, sometimes put into fifth place by the omnipresent Dutch guilder. The United States had no important part in either shipping, banking or insurance, so far as international trade was concerned. She exported raw materials primarily to Europe: a sort of grandiose Aegentine. Germany was an acute competitor of Britain but in the last six years before the World War she had begun to lose ground relatively to her

old competitor, contrary to the general opinion.

Britain then was an absolute free trade nation. Anyone could come into England without let and hindrance, and if he could sell his goods more cheaply than the British, he was welcome. There were no immigration, currency, or tariff barriers. Germany and France and the United States, however, newcomers relatively to industrialization, conducted international trade from behind protective tariff walls. They sold but they did not like to buy. Their position grew relative to Britain's, but in absolute terms she grew too, and in investments abroad even surpassed their rate of gain. Owner of a fourth of the world (dominion autonomy was in its infancy), of half its ships, of a third of its manufactures, importer of a fifth of the world's goods, exporter of a seventh, holder of half the floating bank balances, undisputed in consular supremacy in Latin America, Africa, Asia and Oceanica, this little island was the wonder of commercial history.

The First World War was a shock to that supremacy, but until 1929, it did not result in a serious absolute decline in either shipping, trade, insurance or banking. While exports were slightly hurt, the standard of living of the people was still slightly ahead of pre-war, except for the continuing horror of mass unemployment, in which Britain was then nearly unique. She never recovered enough of her former export trade to end that blight.

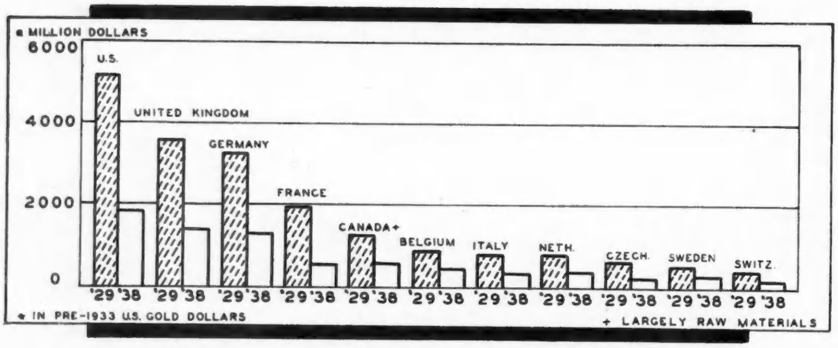
In 1931 she was compelled to devalue the pound. Importer of 20% of total world exports, this move meant that raw material exporters everywhere had either to meet her capacity to pay by lowering their prices, or find another customer. There was no other in the depth of depression. Commodity prices crashed and with them went the American dollar, whose banking system was tied up with loans dependent on such commodities or with advances against stocks whose earning power was dependent on commoditities.

Britain not only cut the cost of her imports: she was at a marked advantage in exports, through the lowering of her currency. But Germany countered with a still more brilliant form of repudiation in the shape of multiple "pressure marks," which transferred the trade of Eastern Europe from Britain and France to herself. Britain, in the meantime, had gone lightly protectionist. Now she abandoned free trade even as a reference, and turned her back on that tradition of freedom which was once her glory. She fostered light consumer industries for home demand instead of heavy export industries. A construction boom was stimulated. In other words, Britain sought to create a temporary non-reproductive form of activity to replace (by illusory turnover) her true prosperity through foreign trade. The net result of this policy was that the shock of war has resulted in a loss of over ten billion dollars net in foreign assets, not counting lease-lend as a liability. Of her foreign holdings abroad, built up for centuries, only some poor vestiges remain.

The British Plan to Recover World Markets

But Britons have never lacked resource. If they were able temporarily to circumvent doom by their devaluation and cheap money policies of the early Thirties, their desperate loss of world assets has not found them helpless. Had Britian merely lost her money abroad, she would be impoverished. But she has accumulated a fund of 3.5 billion dollars (perhaps it is over 4 billions: figures are only indicative) of sterling balances, held in London, which she has "blocked" until happier days. That is, she has bought enormous supplies of raw materials and manufactured goods, and since she cannot export because of her intense concentration on defense production, she credits the exporting nations with pounds with which they can buy almost nothing. She also, as a war measure, does not permit their withdrawal, except at a rate that suits her requirements. Hence she is in the position of being able to tell the whole of mankind that they must either bear with her, and accept her goods in lieu of repayment, or otherwise the value of their sterling will melt in their hands. As this blocked sterling is equivalent to two years full pre-war exports, it is a sum that can serve her export pressures perfectly. It is almost impossible to see what other option her creditors have than to accord with her wishes.

But the painful fact is that mere export of goods to liquidate these balances will do her no good. She has already been paid. How then is Britain to command her needed imports if a constant stream of manufactured goods leave for creditor nations without fresh resources being accumulated to replace the raw materials used in their production or to replace the consumption of the workers who fashioned them? A headlong inflation and a smash in the external value of sterling would temporarily get her out of the dilemma. But it would get all of mankind into a fiscal panic that would make 1933 look like cheerful reading. To avoid this calamity Britain can almost dictate the ratio at which she will liquidate her indebtedness while insisting on receiving sufficient fresh export business to maintain large im-



World's Leading Exporters of Finished Goods

American Corporate Investments Abroad, by Geographic Areas and Iudustrial Classification, 1940-1941

(Values in thousands of dollars)

Industry	Canada and Newfoundland Number	Canada and Newfoundland Value	Europe Number	Europe Value	Latin America Number	Latin America Value	Africa, Asia, and Oceania Number	Africa, Asia, and Oceania Value
Manufacturing:								
Automotive	46	61,996	45	159,910	9	21,870	16	39,347
Chemical	171	86,279	130	51,994	135	64,457	69	17,893
Electrical	56	68,716	68	119,755	10	7,538	12	17,752
Foodstuffs	77	109,524	55	56,461	33	61,893	27	17,212
Leather	10	1,523	6	729	....	....	....	....
Wood products	60	24,969	13	6,681	7	1,646	9	2,689
Machinery	104	81,011	87	93,602	9	3,970	18	14,833
Metal products	119	119,216	54	60,927	6	3,063	9	3,252
Rubber	17	26,753	10	15,725	6	12,158	6	8,901
Stone, clay, and glass	27	11,340	20	10,062	7	21,872	3	990
Textiles	50	19,382	20	3,862	8	6,427	16	7,327
Miscellaneous	53	24,814	37	59,739	8	4,654	4	2,997
Total	790	635,523	545	639,447	238	209,548	189	133,193
Distribution	315	111,561	443	244,746	242	81,753	221	83,548
Agriculture	15	10,548	....	....	88	359,116	25	63,028
Paper and wood pulp	34	307,853	....	....	....	....	....	....
Fishing fleets and packing	9	2,833	....	....	....	....	....	....
Mining and smelting:								
Precious metals	92	51,763	....	....	28	45,031	3	4,281
Nonmetallic minerals	22	17,631	....	....	9	121,068	....	....
Other metals	16	117,833	7	52,655	45	346,333	10	25,334
Total	130	187,227	7	52,655	82	512,432	13	29,615
Petroleum	24	119,606	117	305,521	104	572,084	70	279,962
Public utility	59	407,237	35	73,565	157	962,029	29	70,885
Miscellaneous:								
Advertising	6	274	4	395	5	164	....	....
Amusement	12	11,621	119	44,911	76	2,519	70	9,081
Banking and finance	24	20,997	40	25,989	25	12,051	18	14,345
Insurance	218	262,923	49	4,281	64	896	19	394
Professional	22	1,889	17	2,862	8	1,173	8	765
Real estate	18	10,439	12	4,772	19	13,510	....	....
Ocean shipping	8	1,816	19	13,798	20	22,319	....	....
Port facilities	5	462	....	....	11	21,616	....	....
Grain elevators	....	....	....	....	....	....	....	....
Printing and publishing	8	3,290	12	4,450	....	....	....	....
All other	17	6,596	15	2,973	3	226	19	21,819
Total	338	320,306	287	104,431	231	74,474	134	45,616
Grand total	1714	2,102,694	1434	1,420,365	1142	2,771,436	681	705,847

ports. Since Britain has followed a policy of increasing domestic food production, it seems most likely that she will stress industrial raw material imports rather than human food. Animal fodder imports may, however, increase.

What will be the character of British exports to serve the needs of countries which export these selected raw materials, and which have granted credit to Britain?

Apparently British desires collide with the wishes of these owners of blocked sterling. India has not only paid off its debt to Britain but holds over 300 million pounds in London. The British want to sell India machinery, both metal-working and textile, upon which the servicing and repeat orders will continue for a long time. The Indians are willing to accept, not goods, but prefer to buy British investments in India (whatever remains of them) and thus eliminate Britain in every way, as creditor, governor and investor. But the crowning insult has been a suggestion that Britain be accommodated with a rupee loan, so that the once Imperial master is reduced to an investment outlet for India! Despite this it is Britain, the debtor, which will have the say; since it is impossible for India to force collection on any other terms. During the war Britain has lost ground internally to the Empire and cannot afford to give way much further. She has lost control of the Transvaal gold mines to local capitalists. Her long mastery of Australian land and finance has had to face a 60-million pound increase in blocked currencies. And Ireland, today deprived of almost all consumers' goods, but forced to sell to Britain for want of shipping space, has more than 100 million pounds owed to her. She is closed as a market to other countries for several decades because of this, irrespective of political policy.

Superficially the United States would appear to be in somewhat similar position to Britain. It is almost impossible to state what we owe to foreign individuals and central banks, but it is very likely that in addition to foreign gold earmarked, and other liquid assets, the total investments of refugee and expatriate money in this country reaches more than 7 billion dollars, which is about equal to the amount of our direct investments abroad. But, unlike Britain, we have given up very little on balance, even in the last two years which have seen a reversal of capital flow to outside of this country. A part of this movement has been legitimate: that is, people have seen a larger rate of profit in the newer industrial countries than here and there they are less taxed. A certain part has been due to currency mistrust, but this outflow is pretty much checked.

But it is true that we too have accumulated a credit to other countries by reason of our inability (in war time) to supply them with goods as against our needed imports. We owe them 1,500 millions today. Not only do we owe them for imports, but we are compelled to pay for internal commodities in the West Indies and other stations where our defense work is going on.

The Prince and the Pauper have reversed roles: Brazil, the Central Banks of Argentine, Mexico and Cuba implicitly take us to task for financial unorthodoxy? They have an option on 1500 millions worth of our finished production which, when exported to them, will produce no new profits for us, and will coincide with cash withdrawals by refugees.

It is patent that we cannot allow such sums, reaching billions, to be paid out freely without a marked disturbance to our economy. It is no use to cite the fact that we would have a gold cover left of nearly 15 billions, after mass withdrawals of such funds. The giganic outflow and inflow of funds in the Thirties may have been one of the major economic dislocations that made peace impossible. In connection with this situation, whereby the United States is a creditor nation in fixed capital and long-term obligations, and a debtor in liquid funds, the Treasury has sought a census of foreign holdings by any resident of this country. That census is so extensive and inquisitorial that it must be construed to have a significance beyond what appears on the surface. The holdings of residents (*Please turn to page* 486)

20 War-Active Companies Financially Ready For Peace

BY J. C. CLIFFORD

THOUGH actively in war production, American industry has not been neglecting its preparations for peace. This is true not only of those segments of industry where war work is a relatively minor factor and, consequently, the return to normal pursuits looms large in the calculations of management. Even more, the need for a constructive approach to the problems of peace is recognized in those quarters most heavily engaged in war activities. Their's are the more difficult problems, and their solution calls not only for able and farsighted management and technical skill, but more especially for adequate financial resources to capitalize as promptly as possible on peace-time business volume. For, clearly, managerial and technical ability means little if the resources are lacking for speedy transition, and efficient post-war production and marketing.

There are many war-active companies that have prepared well against the contingencies that lie ahead. Working capital and reserves were bolstered to cushion the shock of transition and provide resources for post-war production and competition. Indebtedness was reduced or eliminated to ease or do away with fixed charges; plants are being amortized at a fast rate and reserves created to insure against losses on inventories or receivables. Obviously, those who prepared best, eventually stand to profit most from their foresight.

Of the great number of forward-looking companies, we have selected twenty enterprises which we believe are excellently situated to capitalize on post-war opportunities. Their selection is not primarily based on such factors as industry prospects or technical standing although these are not being ignored. They are appraised, in the first instance, from the standpoint of financial readiness for peace production.

In the promising agricultural machinery field, Deere & Co. is an outstanding example of sound financial procedure. Of total assets of some $154 millions, cash and marketable securities alone amount to $62.61 millions, an unusually high percentage. Net working capital at the end of 1942 was $99.04 millions and net quick assets were $22.97 per share compared with a current market price for the stock of about 40. Book value is $32.03 per share. For post-war rehabilitation and contingencies, the company created special reserves totalling $14.32 millions; it went, however, far beyond that in safeguarding its future position: both inventories and receivables were written down by over 20% each against possible future losses. Moreover, plant depreciation has been consistently liberal. Net inventories amount to about one-quarter of current assets, a very conservative ratio for this type of industry. Apart from a preferred issue, there are no obligations ahead of the common stock; annual preferred dividends of $2.16 millions are less than one-fifth of average net earnings during 1936-39. Every criterion brings out the amazing liquidity and strong financial position of the company, the result of years of conservative credit and dividend policy. This policy is being intensified since the war; as a consequence, the company is excellently prepared for peace in a field which has much to offer to those ready and able to grasp existing opportunities.

One of its principal competitors, J. I. Case, is likewise doing well in preparing for peace-time business. Besides adequate reserves for post-war adjustments and contingencies, cash and marketable securities amount to almost half of current assets and over one-third of total assets. Net quick assets are $112 per share, almost fully covering the current market price of the stock (118), a rare showing. Book value amounts to $184.34 per share. Here, too, we find liberal reserves for receivables and inventories, and a most conservative plant depreciation policy. Preferred dividend requirements are less than one-fifth of annual net earnings. Inventory, normally a large proportion of current assets in the farm machinery industry, has been reduced to one-third, a factor responsible in part for the company's excellent liquidity. All together, the company has built well against the day when it can once more make plowshares instead of swords.

In the aviation field, United Aircraft, despite the unusual circumstances characeristic of this industry under war-time conditions, has managed to preserve

a healthy financial status which should stand it in good stead when the time arrives to cash in on the admittedly excellent opportunities of the post-war era. Because of the strain placed on finances by the huge expansion in facilities and business, it has been forced to borrow heavily from banks and early in 1942 sold an issue of new preferred stock. However, much of the funds so obtained went into Emergency Plant Facilities which are being rapidly amortised from current high earnings. Another sizable part went into inventories, substantially covered by customers' orders, i.e., Government orders. Gross plant of $72.67 millions by the end of last year was written down to $43.16 millions, rather modest when compared with gross revenues of $521 millions. The major part, however, is Government owned and financed; the company's own plant investment, gross, is no more than $36.08 millions, and net plant is $7.77 millions, compared with $5.79 millions in 1935. This almost abnormally moderate expansion is a vital factor in judging the company's future position. It means not only that there has been virtually no inflation of the cost structure but the company in all likelihood will require, for peace business, new self-owned plant facilities which it should be able to obtain from the Government on a most reasonable cost basis, thereby strengthening its competitive ability vis-a-vis companies with a larger self-financed wartime plant investment. Cash and marketable securities amount to $67.9 millions and special reserves of $23.89 millions were set aside from earnings for transformation to post-war conditions. Net quick assets of $4.80 per share and book value of $23.33 per share compare with a market price for the common of about 35. Current assets amount to $160 millions wherof $53.55 millions consist of inventory and $35.11 of receivables. Outstanding bank loans amount to $37.28 millions, largely represented by increased working capital. This debt, however, is being rapidly repaid under a reimbursement agreement with the Government. Annual preferred dividend requirements come to $1.30 millions, about one-fourth of average net earnings during 1936-39, hence a prior charge which should be easily bearable even under sharply reduced peace-time operations. Financially, it would seem that United is well able to assume post-war leadership of the aircraft industry, a position for which many believe the company to be heading for by virtue of its outstanding overall status in the field of aviation.

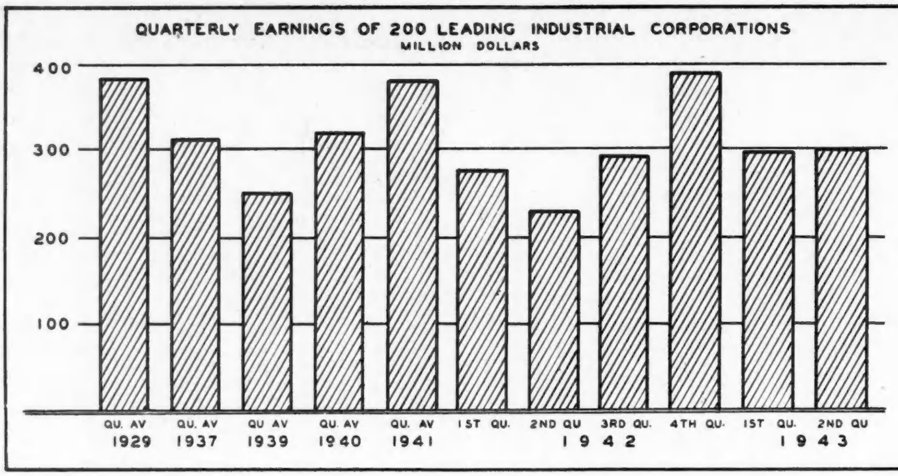
Pullman is another example of an enterprise which, though active in war work, is meticulously preparing for peace. This company, of course, always enjoyed a strong financial position with cash and Government securities normally comfortably in excess of current liabilities. The need for larger working funds of late resulted in the former falling somewhat below the latter ($54.4 vs. $56.16) but this change is all but unimportant as cash and securities still amount to almost half of current assets of $143 millions. Post-war reserves thus far amount to $9.72 millions. Inventories in 1942 were sharply reduced to $28.75, making for greater liquidity, and reserves were set up to cover possible loss in liquidation thereof. Aggregate gross investment in equipment and property, totalling $336 millions is sharply written down to a net depreciated value of $112 millions, in line with the company's conservative depreciation policy. The company's reserve policy takes care of every conceivable contingency: $2.74 millions were set aside for deferred maintenance of Pullman cars; $2.00 millions for manufacturing contingencies arising from war work; $4.68 millions for post-war re-adaptation of manufacturing plants and Pullman equipment. Additionally, a general reserve of $3.19 millions exists. Thus the company appears well fortified against the vagaries of post-war transition. Indicative of its strong position is the book value of $60.15 per share, against the current market price of the common of $37.50. Net quick assets amount to $27.23 per share.

Eaton Manufacturing Co., a well-established maker of automotive and aircraft parts, thanks to excellent income in recent years has managed to finance without recourse to borrowing its own capital additions and greatly (*Please turn to page* 491)

20 War-Active Companies Financially Ready for Peace

Name of Company	Book Value per Sh.	Net Quick Assets per Sh.	Cash and Securities $ Millions	* Special Reserves $ Millions	1936-39 Avge. Net per Sh.	1942 Net per Sh.	1936-39 Avge. Divds. per Sh.	1942 Dividend per Sh.	Recent Price	Yield %
Babcock & Wilcox	42.42	23.77	9.69	1.86	2.65	5.00E	2.02	1.50	22⅞	6.5
Bohn Aluminum	42.19	18.07	1.10	2.41	3.04	6.78	2.31	3.00	53	6.0
Borg-Warner	21.85	13.50	36.92	4.50	3.25	3.54	1.46	1.60	37	4.3
Bower Roller Bearing	18.69	9.73	2.52	0.05	3.09	3.54	2.12	2.50	36¼	7.0
Case J. I.	184.34	112.00	20.25	4.45	9.65	14.51	3.75	7.00	118	6.0
Caterpillar Tractor	26.85	16.00	4.52	None	3.69	3.72	2.12	2.00	53¾	3.7
Clark Equipment	42.18	17.00	6.59	1.00	2.86	4.12	1.48	3.00	38	7.9
Deere Co.	32.03	22.97	62.61	14.32	4.50	3.51	1.02	1.35	40⅛	3.2
Eaton Manufacturing	31.58	16.27	10.88	2.56	2.74	4.95	2.09	3.00	44¾	7.0
Fairbanks Morse	47.06	23.89	9.54	1.81	2.96	4.47	1.25	2.50	37¾	6.5
Food Machinery Co.	28.17	21.13	5.31	0.45	2.83	4.07	1.81	1.75	47¼	3.7
Ingersoll-Rand	40.55	26.35	14.61	2.00	6.86	5.90	5.87	6.00	96	6.2
Nash-Kelvinator	10.77	7.08	17.69	1.00	0.43	0.89	0.37	0.50	13	4.0
Oliver Farm Equipment	76.72	54.10	5.95	2.70	3.03	4.87	None	2.00	48	4.2
Pullman Co.	60.15	27.23	54.40	9.42	1.63	3.14	1.66	3.00	37½	8.1
Raybestos-Manhattan	31.93	17.18	5.55	1.75	2.19	2.58	1.48	2.00	28⅜	7.2
Sylvania Electric	13.26	6.70	2.08	0.20	3.27	1.76	2.31	1.25	32⅜	4.0
Timken Detroit Axle	20.86	15.03	22.60	1.77	2.18	5.25	1.50	3.25	29¾	10.8
Timken Roller Bearing	21.06	10.86	22.90	5.02	2.99	2.68	3.06	2.00	49⅛	4.0
United Aircraft	23.33	4.80	67.90	23.89	1.96	5.99	1.20	3.00	35	8.6

* For contingencies and/or post-war readjustments.



DIVERGENT TRENDS IN SECOND QUARTER EARNINGS

BY WARD GATES

WITH second quarter corporate reports coming to hand thick and fast, we are now able to gauge more accurately the trend of corporate profits during that period. On the basis of results so far published, second quarter net appears to average some 30% over a year ago, against a percentage gain of some 7% for the first quarter. This showing fully bears out earlier predictions and reflects primarily two things. First, the over-statement of tax liability made in last year's first and second quarter reports. With tax charges now substantially moderated to conform to actual experience under the new tax law, the earnings gain to that extent is exaggerated though it is difficult to say just how much. Nevertheless, good progress in earnings was made during the second quarterly period; it reflects the fact that peak output was reached in many sectors of our production front.

While production, and with it earnings, hereafter will tend to level off, this trend naturally will not be uniform and many industries will be able to register further gains. Among them will be primarily those who made their best showing during the second quarter. Chemicals, oils, retail trade fall into that category; their second quarter results show considerable improvement. As an example three chemical companies report an average increase in net of 29% over last year but only 2.7% over the first quarter this year. For the entire first half, their gain in net earnings ran about 13% over 1942. Six reporting oil companies, for the first half, show a profit gain of 37%. Steels on the other hand exhibit a mixed trend with declines predominating among those which thus far reported. Of six steel companies, four during the second quarter earned 8% less than last year but on a six months' basis, a gain of 1.3% was shown. Of four mining concerns, three during the second quarter averaged 17% less than last year, and 21% less than during the first quarter. In the majority of cases where declines occurred, rising costs and wages were mainly responsible.

The validity of most earnings statements is naturally rendered questionable by the renegotiation factor. This is being emphasized in many corporate reports. Lockheed's management, for instance, points out bluntly that earnings are "to a degree meaningless" until renegotiation is completed. Sylvania Electric is no less outspoken and stresses the gravity of the problem by stating that despite what is believed adequate provisions for this contingency, the effect of renegotiation can only be estimated and may necessitate further adjustments. In this connection, it is pertinent to point out that even today, only one-quarter of 1% of the war contractors who are scheduled to submit to renegotiation have been able to reach a final adjustment of their business with the Government. Thus far the renegotiation boards have confined their attention mostly to the larger manufacturers and have renegotiated contracts aggregating $8.5 billions. Of this sum, the boards are credited with recovering over a billion dollars or about 12%. If this could be taken as a

yardshick, the earnings gains reported during this year's first two quarters would have to be pared down considerably.

However, less than a third of the recovery was in cash; the balance is accounted for by price reductions on future production. If this procedure is followed in the future, as it probably will be, the effect of renegotiation may be not so much a sharp shrinkage of reported profits, in the form of charges against existing reserves, but rather a sharper than expected contraction of future earnings, resulting in increasingly unfavorable comparisons against previous periods. The net results are, of course, the same. Hence third and fourth quarter reports may be doubly compromised; first, due to the aforementioned renegotiation factor if renegotiation is meanwhile effected; and, secondly, due to more evenly applied tax provisions. While the latter is only a statistical feature, the former is real enough.

Record Sales Volume

Meanwhile, additional company reports come to hand make interesting reading. Johns Manville, for instance, reports record sales of $27.27 millions during the second quarter against $26.87 millions a year ago. Net income was $1.06 millions, or $1.19 per share compared with $1.10 millions or $1.24 per share. Earnings before income taxes and EPT were $3.76 millions compared with $5.89 millions while taxes were reduced to $2.70 millions from $4.79 millions last year. The largest item affecting the decrease in taxes was the decline in income before taxes which in turn was mostly due to increased wages and salaries. These were $1.88 millions more than last year. Declining tax liability thus was not sufficient to overcome the deleterious effect of its cause, higher wages. Included in second quarter net is a post-war tax refund of $285,100, equal to 34¢ per common share.

Reflecting war-time difficulties in obtaining an adequate supply of raw material for processing, Corn Products Refining for the first half year had an operating profit of $12.33 millions compared with $15.93 millions a year ago, a sizable dip. Consequently, taxes declined sharply to $7.57 millions as against $11.53 millions last year, leaving net of $3.99 millions against $4.16 millions in 1942. This is equal to $1.24 per common against $1.30, proportionately a rather small decline when compared with the drop in operating income of over $3.5 millions. Here, the cushioning effect of receding taxes on lower income is excellently illustrated. With the tightening supply of corn continuing at this writing, there appears little prospect of a marked improvement of results in the near future although some easement ought to be felt with the marketing of the new crop. How far this will go in restoring the previous high operating rate, remains to be seen and will primarily depend on Washington's price policy.

Like most chemical companies, Union Carbide & Carbon, during the second quarter reported improved earnings which amounted to $9.69 millions against $7.61 millions a (*Please turn to page* 493)

Companies Showing Increased Earnings

	Per Share — Second Quarter 1943	1942
Acme Steel	$1.55	$1.16
Hercules Powder	.91	.66
Continental Baking	.57	.27
U.S. - Hoffman Machinery	.55	.43
Tel-Autograph Corp.	.18	.14
Van Norman Mach. Tool	1.34	1.33
Transue & Williams	.78	.71
Shell Union Oil	.41	.19
Nat. Acme Co.	1.21	.44
Nat. Cash Register	.48	.45
Westinghouse Air Brake	.35	.25
Wrigley	.95	.74
Dupont	1.16	.87
Minneapolis-Honeywell	1.11	.61
Studebaker	.33	.31
National Biscuit	.33	.26
Sharon Steel	1.05	.79
Barber Asphalt	.32	Deficit
First Half Year		
Texas Co.	$1.62	$1.40
U.S. Playing Card	1.71	.99
Barnsdall Oil	.80	.54
Houdaille-Hershey	1.04	.77
Libbey-Owens-Ford	.55	.30
Plymouth Oil	1.05	.77
United Biscuit	1.08	.92
General Electric	.73	.72
Bayuk Cigars	1.81	1.39
Ind. Rayon	1.05	1.02
Nat. Cylinder Gas Co.	.91	.43
Sylvania Electric	.81	.79
Worthington Pump	5.47	3.96
Atlantic Refining	.90	Deficit
Bliss & Laughlin	1.31	1.12
Nat. Distillers	2.27	1.21
Beechnut Packing	3.03	2.92
Union Carbide	2.05	1.83
U.S. Rubber	2.44	2.39
National Lead	.40	.31
American Distilling	3.83	1.89
Atlas Powder	2.32	1.94
Phillips Petroleum	1.62	1.51
Blaw-Knox	.59	.44
Crosley Corp.	4.86	.70
General Baking	.32	.29
General Foods	1.06	1.01

Companies Showing Decline in Earnings

	Per Share — Second Quarter 1943	1942
Howe Sound	$0.74	$0.90
Granby Consol.	.08	.17
Budd Wheel	.44	.55
Johns Manville	1.19	1.24
Crucible Steel	3.12	3.96
Continental Steel	.99	1.02
Byers, A. M.	.66	1.37
Bush Terminal	.21	.25
Climax Molybdenum	.97	1.06
Container Corp.	.58	.67
General Foods	.45	.52
Hershey Chocolate	.91	1.06
Victor Chemical	.29	.33
Jones & Laughlin	1.04	1.42
Youngstown Sheet & Tube	1.22	1.24
Nat. Container Corp.	.53	.89
Penick & Ford	.74	.87
U.S. Steel	1.08	1.43
First Half Year		
Brunswick-Balke	$0.78	$0.92
Eaton Manufacturing	2.83	2.93
Gillette	.42	.43
U.S. Pipe & Foundry	.88	1.73
James Talcott	.52	.66
Corn Products Refining	1.24	1.30
Congoleum-Nairn	.53	.62

The prudent investor faces a difficult choice in security selection today but recent market reaction has at least made the problem somewhat simpler in the all-important matter of price.

Three Sound Security Portfolios For Income—For Capital Growth

BY J. S. WILLIAMS

THE investor faces a difficult problem after an uninterrupted rise of one year and three months in stock prices and a proportionate decline in yields of bonds, preferred and common stocks. Here and there fear of anti-inflation measures or disturbances based on anticipation of difficulties due to a sudden peace have interrupted the upward trend, but the bargains are still few and when a few yields are high, there are weighty reasons for the principals lagging behind higher quality income payers.

Yet the science of investment cannot stand still in such a situation. There are funds to be placed; in fact, there are more of such funds than have ever been witnessed before. And, as to difficulties of investment and the discovery of appropriate opportunities for the enhancement of capital, the investor is permanently in a quandary. When stock prices are low and yields are high it is because the situation looks unpromising and there are apparently good arguments against any commitments. When there has been a long rise, then it is difficult to look for advances and income is scanty. Hence the analytical guide to investors must always discover portfolios that are, first, the must promising in the given situation, and, secondly, those that must ultimately act differently from the average of the market, and calculated to move in a constructive direction.

Such securities have always existed. In 1929, to take one example, Case and Auburn and Homestake sold for less at the very hectic top than they sold for years later in the depths of depression. Certain other stocks declined less (once their income was taken into consideration) than if the holder had held to cash, and at various points when the market rose temporarily, they always afforded the chance for a certain surplus. Hence the keen investor will always find opportunity, irrespective of the general aspects of profits or interest rates.

Three portfolios have been set up here with especial reference to the present quizzical condition of markets. The government has, of course, a stake in low money rates, so that the bondholder begins with a long-term play in his favor, and, insofar as preferred stock yields are affected by competitive bond yields, so does the intelligent preferred stock investor. That consideration has governed in the choice of our first portfolio, the Safety First selection. That does not mean that the market value of some of the securities selected may not vary, but that the investor is completely warranted in disregarding that variation in quotations for they are reasonably certain, within a fairly short time, to cancel any such decline and to rise to higher levels than the original acquisition price.

The first portfolio is divided 50% into bonds, 30% preferred stock and 20% common stocks. Canadian Pacific 4½s have been selected because of the certainty that the paid export trade of Canada and the flow of its merchandise to seaboard, after the European War, will rival the peak load seen today, with a possible reduction of costs. The bond should sell to yield under 4%. Michigan Central, the underlying connection rail of New York Central's industrial belt area, is slightly underpriced, but the above average yield is the attraction. It is hard to think of more than a slightly transient decline in market price, even after war changes, because the area served is just that which will be most active in making up the lag on consumer's durable goods. The Pennsylvania 3¼s are

Safety First Portfolio

	Recent Price	Current Yield
BONDS—		
Canadian Pacific 4½s, 1960	100½	$4.48
Michigan Central 3½s, 1952	100½	3.48
Pennsylvania R.R. 3¼s, 1952	97½	3.34
Union Pacific 3½s, 1970	103½	3.36
Youngstown Sheet & Tube, 3¼s, 1960	99½	3.27
PREFERRED STOCK—		
Chesapeake & Ohio $4 A	107½	3.72
National Lead, Pfd. "B" $6	148	4.06
Duquesne Light, Cum. $5	120	4.16
COMMON STOCK—		
Beech-Nut ($525 in 1942)	110	4.77
Diamond Match ($1.50)	31½	4.76
Average Current Income		$3.94

simply a few points out of line with senior obligations of the system and are selected on a comparative basis. Union Pacific 3½s should maintain their price, and, as seems probable, if Union Pacific uses its excess cash to retire its bonds, they, by rarity, may increase in desirability for institutional placements. Youngstown Sheet and Tube is adequately secured as to earnings in poor years and to earnings assets backing, and should maintain its price or enjoy a slight premium over parity. Its yield is better than many steel bonds of similar quality. Industrial bonds have been overfavored as against rails and utilities lately, and in relation to that preference, these bonds are attractive.

Among preferred stocks of this quality, Chesapeake & Ohio preferred is absolutely underpriced. The earnings behind the stock are so consistent and the financial position so good that it should sell at 112 or above on a pure valuation basis. National Lead "B" preferred is underpriced with reference to the "A" of the same company and the stock is in line for an upsurge in earning when construction is resumed and is also a direct beneficiary of the peace with reference to foreign assets. Duquesne Light has been selected although it exceeds its call price, because the practical exigencies of the investment market today make such a call far-fetched, and the stock is really worth a 3.75% basis and thus it should be retained until 125-128, at which level the company might be tempted to refinance. At any rate, the income is high for the quality and the possibility of a decent advance always there for that reason.

Among the common stocks chosen, Beech-Nut will probably continue to pay in the neighborhood of its 1942 dividend, and with any fortune, could disburse the $6.25 with which it gratified its shareholders in 1941. It is recession-resistant and no better management can be conceived nor any sounder finances. Diamond Match is in a dominant position in its field: its management from the Stettinius days down has been unrivalled and it is gilt-edged and cheap. It may see a small decline here and there, but such a decline would not be worthy a moment's emotion in a long-term holder. A higher price, ultimately, seems sure.

For Moderate and Liberal Yields

	Recent Price	Current Yield
BONDS—		
Chicago, Burl. & Quincy, Refg. 5s, 1971	91	$5.49
New Orleans Terminal 4s, 1953	95	4.21
Reading 4½s "A", 1997	93	4.83
Otis Steel, "A" 4½s, 1962	104	4.32
Western Union 4½s, 1950	99½	4.52
PREFERRED STOCK—		
American Sugar Refining $7	110¼	6.35
Celanese $5	107	4.67
Philadelphia Co. $5	80	6.25
COMMON STOCK—		
Chesapeake & Ohio ($3.50)	44½	7.86
American Smelting & Refining ($3)	41	7.30
Average Current Income		$5.58

For Income and Appreciation

	Recent Price	Current Yield
BONDS—		
Atlantic Coast Line 4½s, 1964	70¾	$6.36
Mexico, Rep. of, Newly Ass'td. 5s of '45	15½	8.50*
Australian 5s, 1957	93	5.38
PREFERRED STOCK—		
Jersey Central Pwr. & Lt. $5.50 Cum.	76	7.23
Central Power & Light $7 Cum.	103¾	6.75
COMMON STOCK—		
Caterpillar Tractor ($2)	47	4.25
Nash Kelvinator ($.50)	11⅜	4.39
Briggs & Stratton ($3)	41½	7.46
Bohn Aluminum ($3)	48	6.25
U.S. Playing Card ($2.50)	39¼	6.36
Average Current Income		$6.29

***Approximate.**

The Second Portfolio, for moderate and liberal yields, assumes a slightly greater possibility of price variability, but is based on the calculation that the surplus of income, due to higher yield, is such as to more than cancel that slight possibility. The ratio of bonds and preferred stocks and common is the same as in the first portfolio, but, of course, the quality is slightly lower.

The C. B. & Q., refunding 5s came up with the strong rail market. They should, after some hesitations, see par. The situation of C. B. & Q., although slightly favored by the war, in that transcontinental shipments have increased unduly over its lines, nevertheless will show an earning power for years so much above pre-1939, that the investment quality must reach a straight 5% basis. New Orleans Terminal benefits not only by L & N consistent improvement, but the longterm trend, even for Southern Railway aids it, and the assets and earning position are thus amply safeguarded. It deserves a 4% basis. Reading 4½s will surprise by their anthracite earnings and by the continuity of loadings. When the longterm record of the common stock is considered, it is clear that a 4½% basis is indicated or 4¼%, which would allow of attractive appreciation. Otis Steel, certainly after its absorption by Jones & Laughlin, improves its previous quality by reduced overhead costs: its specific guarantees make it independently attractive. Western Union 4½s, despite a slightly disturbed earnings history will benefit by the nearness of its maturity, especially as cheap money policies continue for the reconstruction period.

Among the preferred stocks. American Sugar Refining, now permitted of a continuous instead of an erratic supply of sugar for refining and the general improvement in sugar quotas almost sure to supervene, is really undervalued as an investment. The Celanese stock, as is shown by the advance of the sister company in London on every peace rumor, is bound to participate in the rayon boom after the war. It is possible that rayon in 1939 was merely beginning its career as a textile (together with its chemical corollaries) and the stock should sell somewhat higher, perhaps over (*Please turn to page* 492)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Too Clever was the program of United States airlines to parcel out among themselves world-girdling routes for post-war operation. Instead of preempting the field, the lines have pushed themselves fairly well out of it. Overlooked by them, seemingly, was the fact that international air lanes will be as important diplomatically and politically as they will be commercially after the war. The State Department and the Senate will have their say.

Congress Order to government agencies to get out of the publishing business has been replied to with an announcement that the War Production Board will begin issuing a tabloid paper to be distributed among labor-management committees. This in the face of a print paper dearth that has forced all periodicals to curtail, to turn away millions of dollars in advertising revenues that would help meet payrolls, meet tax bills.

Personnel thinning out in Federal agencies will result from the little heard-of, but tremendously important, study being made by the Ramspeck Committee of Congress, which already has established that Government hirings have long been in the hands of "callow collegians." Experimenting with current operations now, the committee actually is looking toward the inevitable exodus from public payrolls that war's end will bring.

East vs. West, the shipyard battle that has been simmering for two years will be brought out in the open as a result of investigation of Pacific States facilities by an east-dominated House Committee. The Committee will charge inefficient and uneconomic operations and make Henry J. Kaiser the principal target. Aware of the role he'll play, the tycoon moaned: "I thought we were supposed to be fighting Germany and Italy and not each other."

Labor's "Consent" to price stabilization was made dependent upon roll-back of food prices as the A F L and the C I O "pushed their luck" with a White House incumbent marked by them as surely on their side after his veto of the Connally-Smith Bill. Ignoring limitations placed on the President by Congress, they brought the demand direct to Mr. Roosevelt. It would cost money, therefore Congress must be consulted, the President dismissed. However, there is still plenty of room for strategy, on both sides. The unions did not state what alternative action they contemplate if their price policy is not complied with. If their pressure should become purely political, their discontent conceivably could smolder for a long time without fateful flare-ups endangering the war effort. Withall, time may show that their roll-back insistence is not nearly as dogmatic as it appears.

Washington Sees:

The reversal of propaganda form on the Nazi-Soviet front has Washington wondering if the new techniques haven't something to do with America's attitude toward the war at this point.

When the Russians tell of a great break-through their lines by the Nazis, and the Germans simultaneously say they are forced to admit they underestimated the striking power of the Reds, something is radically wrong. Two belligerents who have been consistent winners up to now (in their own press releases), suddenly begin to lose ground, or confidence, or both — in the same military engagement!

Could it be that Russia believes the Second Front will be delayed so long as she is able to hold her own, gain ground, with the enemy at her border? If so, any hint that she cannot couldn't fail to help Russia.

Could Berlin be overestimating Soviet strength in an attempt to play the old Nazi game of arousing fears of "Red conquest" in Washington and London? That speculation is no stranger to the coffee cups and the cocktail glasses of Washington.

In any event it is the first case on record where two Nations engaged in mortal struggle with each other seemed anxious to appear losing.

A bad omen can be read into Secretary Frank Knox' suggestion that the war with Japan might not be over until 1949. Not alone in the prospect of long conflict, but also in the fact that the forecast rides the crest of great military gains in Sicily and in Italy.

Poorly veneered is the Roosevelt policy of peacetime, lately applied in wartime. If F D R wanted five billions for relief, he asked Congress for ten billions, suffered the inevitable slash, procured what he really wanted. Ask for more than expected and you'll get what you expected, the theorem ran. And it worked.

It took a year after Pearl Harbor to prepare the Nation for the real story of destruction — a year of "we are losing the war," and other optimism-routing utterances. When the time was ripe, the story came — a tragic, disheartening one; but "not as bad as it might have been."

Knox' prediction of conflict almost rounding out a full decade was the beginning, probably won't be the end, of pessimistic talk in the face of a "good press" for Allied combatants on all fronts. Concern is: Has anything happened that was "bad enough, but could have been worse?"

The Secretary's statement wasn't given general credence, yet it is likely to be closer than many semi-official analyses still heard in the Capital. Allies are meeting a foe who entered the war with several times their merchant shipping, an enormous battle fleet that hasn't yet been engaged on the high seas.

Japan leads the world in salvage skill. Few of her ships are irretrievably lost. Reliable sources say even the huge floating drydock scuttled by the British at Singapore has been resurfaced and is in use. If so, Nippon has an invaluable naval adjunct.

Stepped-up delivery of lend-lease aid brought the June total to $1,030,000,000, the first month in which the billion dollar mark was passed. Important was the fact that tremendous amounts went to battle lines, little to warehouses.

It means substantially more backing for China and for Russia, each of which has been pouting about slow arrivals of supplies. In the latter instance, it complemented Canadian deliveries which now make Russia virtually the sole port of call.

Furthermore, moving on two oceans with almost no losses, it proved the sea lanes are being rid of Axis prowlers, now engaged by the Allies too close to home to risk dispatch of craft on marauding expeditions.

Vast government projects sprawling over huge acreage of publicly owned, therefore tax-exempt land, are creating a fiscal problem which will be reflected in a demand for Federal payments in lieu of taxes.

The Government owns 70.9 per cent of the land in Idaho, 61.5 per cent of Montana, 59 per cent of Oregon, 45.9 per cent of Washington, and so on. Acreage seized for military installations usually is of low-tax status, but the problem grows in direct proportion to the condemnations.

The principle of cash payments in lieu of local taxes has precedent. It was instituted by the U. S. Housing Administration to meet the objections of local governing bodies that Federally-titled housing robbed the municipal coffers, shifted a great burden to individual taxpayers.

The early summer lag in production bemoaned by Donald M. Nelson and others had an explanation of which Mr. Nelson's office was completely advised. Changes in types of war necessaries as the saturation stage was reached on certain material required time-consuming changeovers.

There was no fundamental weakness in the industrial machine; nothing to disprove the belief that it has been geared to absorb raw materials, turn out finished goods at a greater rate than ever before.

But, as frequently is the case in Washington, there was conflict on what the plant potential will be used for. More and more, warned Commerce Secretary Jones, workers must move into essential endeavors, "the civilian economy can hardly help being deeply affected by these impending changes."

War Mobilization Director Byrnes had a different view. Ordering a resurvey of military procurement needs, he expressed as a hope — not a prediction: "We may find that changes can be made to release more materials for civilians."

Admittedly floundering today with no apparent remedy in sight, price control nevertheless is shaping as a post-war policy that will remain in force for many years.

Liquid assets — savings and bank deposits — of individuals and of business have increased about fifty billion dollars in 1941 and 1942, and at the end of 1943 the total will be passing the one hundred billion dollar mark.

Wartime savings in government bonds or idle currency and deposits reduce severity of price control problems during the war, but create a purchasing power reservoir which, added to current income, could sky-rocket prices if controls fail. And the impact would come before industry reconverted.

With all controls off and the law of supply and demand in the saddle, the United States experienced serious price inflation in 1919, 1920, when holders of accumulated purchasing power bid against each other for scarce goods.

Jesse Jones proposes this solution: place the further financing of the war as much as possible on pay-as-you-go; reduce Federal borrowings to a minimum; insure effective price controls for as long as necessary in the post-war era.

When Secretary Jones and Vice President Wallace couldn't agree who was supreme in the field of foreign economic activities, President Roosevelt named Leo T. Crowley to assume the duties of both, whereupon Cordell Hull became top man.

It all sounds complicated, but: Jones and Wallace had overlapping powers and functions. Dating back to their rivalry for the vice presidential nomination they had accumulated differences that were bound to crop out. Operational control was vested in Crowley, policy (the crux of the Jones-Wallace fight and the essence of B E W activity) was left for Hull.

Exhibited was another instance of reaching an objective by the most devious approach that could be found. Hull maintained at the beginning that foreign economics were so entwined with international diplomacy that B E W should be an agency of the State Department. He was refused supervision when he asked for it; had it thrust upon him when he didn't.

Mid-Year 1943

Re-Appraisals of Earnings and Dividend Forecasts—

PART II

Outlook and Ratings for Individual Motors, Accessories, Tires, Machinery, Rail Equipments, Office Equipments.

Periodic re-appraisal of investment and speculative holdings is an essential safeguard against changing conditions which threaten or potentially threaten either capital values or income return or both. The military, political, economic and financial changes affecting security values today are more numerous and rapid than ever before. Especially in the case of common stocks, watchfulness is imperative at all times.

To serve this need The Magazine of Wall Street, as for many years past, presents its special Re-Appraisals of Earnings and the accompanying Dividend Forecasts at six-month intervals—besides, of course, its regular bi-weekly coverage of all significant economic and industrial developments important to investors.

Our thousands of readers in the aggregate hold stocks of many hundreds of corporations. Thus, lengthy individual re-appraisals in this service feature would permit coverage of too few to be adequately useful. Hence our effort is to present the most pertinent information and ratings on the maximum possible number of issues as concisely as possible for the convenience of our subscribers.

It is important to bear in mind that current earning power of various war-active companies is abnormally good and thus not indicative of future potentialities. Similarly, depressed "war casualty" earnings are also abnormal. For these reasons, as a handy reference guide, our tabulations show for comparison the average pre-war earnings and dividends of 1936-1939. Book values and—where feasible—net quick assets per share are also shown and are of considerable interest in an inflation era. Under "Investment Rating" the letter denotes our judgment of investment quality and prospects, taking into account trade and financial position, management, growth potentials, tax position and other factors; while the numeral indicates current earnings trend. Thus: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. Numerals: 1—Earnings Trend Upward; 2—Steady; 3—Down.

Selected issues favored for capital gain are denoted by the letter x in the tabulations; for safe income, the letter w. For guidance on timing of purchases for appreciation, watch the continuing advice given in our regular market analysis article in the forefront of each issue.

War and Post-War Potentials For the Motors, Accessories, Tires

BY FRANK R. WALTERS

MIDWAY in its second year as a major component of the nation's mighty arsenal, the automotive industry is experiencing a new set of production signals, calling for increasingly selective output of war goods. The all-out demand characterizing the first phase of our war production effort has given way to new scheduling procedures. Under the accelerating impact of war's shifting requirements, automotive assembly lines, 100% converted to war work, are more and more affected by changes in design, lack of materials sufficient to maintain full production, and cutbacks or cancellations of production schedules because materials or machines are suddenly more urgently needed for other products.

Despite the sometimes disconcerting changes occurring as a result, the industry today is producing at a rate of nearly $1 million hourly and expects not only to maintain but to exceed this rate. The backlog of orders early this year amounted to $14 billions; of this, about half was in aircraft classifications. Presently, the annual rate of production, including related parts manufacture, is in excess of $7 billions compared with 1942 output of $5.48 billions, whereof $820 millions consisted of civilian lines. The current rate is equivalent to producing over ten million passenger cars and trucks as against a peace-time record of 5,358,000 units in 1929. From now on, however, month-to-month gains, for aforesaid reasons, are likely to be less than last year; the heretofore steady uptrend of production may even be temporarily interrupted. Some plants are already operating below previous record levels while others face curtailment of output, either immediate or in the near future. Others again are still expanding facilities, primarily to meet aircraft orders.

Radiator and grille being lowered into place on a military truck at the Studebaker plant.

On an over-all basis, the automotive industry this year is likely to show further gains in sales and earnings but progress will not be uniform. The best gains should be registered by those companies which in 1942 were hampered by plant conversion expenses and loss of revenue attending their transition to war work; this of course will not recur this year. Chrysler is a case in point. Its war work is rising sharply and is expected to reach an annual rate of close to $1.75 billions eventually, assuming adequate supplies of raw materials. For General Motors, too, 1942 was principally a year of transition, clearly indicated by the decline in sales below that of 1941. An annual capacity of nearly $5 billions is expected to be reached later this year, given adequate supply of materials and labor; however, changes in requirements may not justify this eventual maximum goal.

On the whole, earnings will largely depend on the rate of return permitted by the Government. In the case of General Motors, indications are that it will be allowed to earn around 11% before taxes. A higher rate will no doubt be granted to smaller concerns. Percentagewise, this means a sharp reduction from peace-time earnings when an average of 20% was realized on invested capital by the leading companies. War volume, of course, far exceeds peace volume; in all cases, output is now well in excess of the best peace-time years. Generally speaking, 1943 operating incomes should attain new highs unless contract cancellations become heavier or contract prices are further pared. But taxes will largely offset any gains in operating income and final earning power will be well under that reached in past years of high automobile output. Some of the truck manufacturers particularly will be less favorably situated; most of them last year were operating at exceptionally high levels and subsequent curtailment in truck production may reduce operating income in coming months. With truck inventories apparently sufficient for nearer term needs, schedules are understood to have been cut between 10% and 20% from earlier highs. Further reduction is held possible, in line with efforts to balance output of various war

products with available materials and military needs.

In the automobile parts field, similar trends, perhaps more pronounced, have been observed. Because of changes in war products requirements, expansion of output has experienced moderate setbacks but over-all production should still exceed that of 1942. With contract renegotiation likely to be more severe this year, many companies will be unable to record material improvements in earnings, and here, too, the greatest gains are expected in the ranks of those companies that were most retarded in 1942 by conversion to war work. Generally, however, industry profits should average somewhat above last year and compare favorably with the best peace-time results. This despite occasional severe dislocations due to cutbacks. The over-all reduction made in ordnance items is estimated at 6% and later in the year may reach as much as 25% from previously established schedules. This may necessitate even complete shutdowns of some plants to achieve the desired balance of output. On the other hand, facilities for the output of aircraft items are still in the expansion stage. Companies active in this field, such as Bendix, Bohn Aluminum, Bower Roller Bearing, Borg Warner, Cleveland Graphite, Dohler Die Casting, among others, will therefore fare considerably better than others. But even in their case, no really broad gain in net earnings is anticipated, due to taxes and renegotiation. The latter remains a highly uncertain factor; the bulk of the companies have not yet renegotiated their 1942 business.

Capacity Operations for Rubber Industry

In contrast, the Tire and Rubber industry faces continued expansion of volume, limited only by available raw materials and production facilities. Tire output this year is expected to exceed 1942 volume of some 17 million units of which some 12 million consisted of heavy duty tires, largely for military purposes. The gain will principally reflect increased production and distribution of civilian tires (for essential purposes only); a sizable step-up of heavy duty tire output appears precluded by inadequate plant facilities; this latter may be felt more seriously later in the year when a greater proportion of synthetic rubber, requiring more building time, is being used. The supply situation, once critical, has vastly improved, thanks to the rapid progress of the synthetic rubber program. A total of 750,000 long tons of rubber will be available this year, with production of synthetics estimated at 280,000 tons. While this is sufficient to meet all requirements, civilian as well as military, tire building facilities, due to increased use of synthetics, will become severely strained as output expands. For this reason, little if anything will be available this year for strictly civilian purposes though next year should bring marked relief for the harassed motorist.

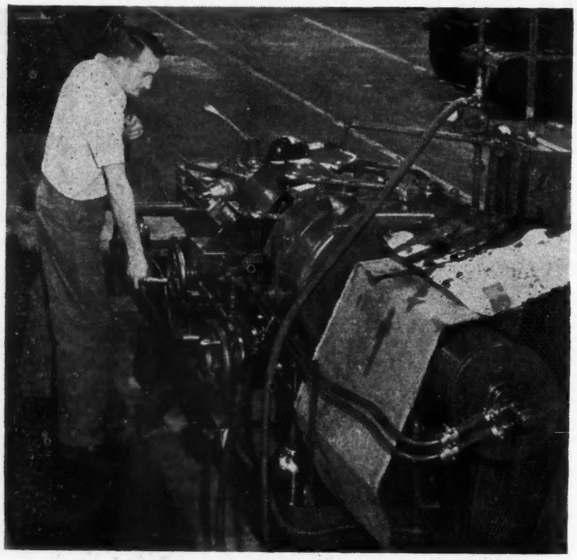
Other rubber products (mostly of a military nature) and non-rubber war materials form an important part of the rubber industry's war-time operations. This volume should continue to expand markedly. However, profit margins on all production

A woman tire builder is lifting a tire which she has just built at the United States Rubber Co.

tend to contract due to higher costs, taxes and renegotiation, though the effect of the latter should not be particularly severe. For the duration, then, earnings and market action of tire and rubber equities will largely depend on the industry's ability to fulfill military demands. Prospects are good that this will be done satisfactorily but a possible retarding factor is seen in the field of plant facilities. It remains to be seen whether management is able in time to hurdle this barrier to higher output.

Summing up, it may be said that during the period of active war demand the automotive industry should continue operations at relatively high levels though no further broad earnings gains are likely except perhaps for companies which were relatively late in completing conversion, as well as those active in the manufacture of aviation items. On the other hand, prospects of the Tire and Rubber industry are only limited by capacity to produce, as the supply situation is constantly improving and potential demand is very large.

As to the post-war outlook, entirely different and exceptionally promising vistas open. The automobile industry, of course, is faced with an enormous retooling job which may take anywhere from four to twelve months. The "scrambling" of machinery characteristic especially of the smaller companies will seriously handicap early resumption of normal operations. In this respect, the automobile industry is definitely at a disadvantage when compared with many others where prospects are good for the development—during war time—of a transitional "dual economy" designed to supply increasingly our civilian markets as less of our enormous production capacity will be needed during the rapidly approaching replacement or operational phase of our war production effort. Due to technical difficulties, such a transitional stage will hardly prove feasible in the



A corner in the Plymouth Motor Car Company before its conversion to war production.

automobile industry. Instead, a readjustment period is indicated after the war during which earnings will be virtually nil until assembly lines actually begin moving, turning out automobiles. However, once peace-time operations are resumed, few industries are in a position to profit as handsomely from their post-war potentials.

To realize this, it is well to consider the basic position of the automobile industry as it existed prior to the war. Then, prosperity of the automobile and parts industry depended in major degree on replacement demand. The automobile having become a highly efficient mechanism, this demand was not primarily based on physical obsolescence but on style and appearance. The industry went to great lengths to maintain it; it granted high trade-in values and placed instalment car buying virtually on a monthly rental basis.

When the war is over, the accumulated demand will be such that the industry will find itself in a radically different position, from a marketing standpoint. For the first time in years, there will again be a situation closely resembling a sellers' market. It should last several years, at least. Even if the war ends this year, accumulated demand for automobiles is estimated at around nine million cars by the time assembly lines can begin to move. The backlog will rise cumulatively the longer the war lasts. At least, it will be equivalent to twice the record output of 1929. Clearly, in such a market the industry should be able to maintain really profitable selling prices as the competitive angle, for a time, is likely to be inoperative in the scramble to buy cars. By the same token, this situation should afford the independents an excellent chance to obtain wider markets and become better entrenched by strengthening their dealer system, heretofore their greatest weakness in meeting competition of the "big three." It should also mean a much more active used car market, with prices considerably above pre-war, since many potential buyers, unable to satisfy quickly their need or desire for new cars, will have to resort to used vehicles.

While the automobile industry, and the "big three" within the industry, stand to capture the lion's share of the available post-war purchasing power, there will, nevertheless, be considerable competition for the consumer's dollar. Ordinarily, the automobile has proved itself superior in attracting it; it appeals to powerful buying motives. Yet, in other fields, too, a heavy pent-up demand is indicated. Perhaps second only to the latent demand for automobiles is that for electrical appliances, another favored form of consumption under our high standard of living. Provided the latter emerges unimpaired from the war, there may be heavy competition between these two. But here, too, the automobile industry, and more especially the parts industry, has a considerable stake. Whichever way popular fancy turns, the automotive industry stands to profit handsomely regardless of intra-industry competition. In short, post-war prospects should hold superior earnings opportunities which, we can be sure, management will be able to exploit fully without compromising their newly-won marketing advantage. The parts industry, moreover, faces virtually no reconversion problem; it is technically and to a large extent also financially well equipped to realize quickly on the prospective demand potentialities.

Excellent Post-War Outlook

The same holds good for the Rubber and Tire industry where initial demand after the war should be staggering. Here, too, we find all the makings of a potential sellers' market, for a time, with its implication of greater earning power and absence of the pre-war bane of deleterious price wars. Increasing diversification of all major factors of the industry only deepens this tendency.

Marketwise, it appears that automotive equities have by no means fully discounted their excellent outlook, due perhaps to a tendency to overstress the competitive factor. The latter should, for a number of years, turn out to be not nearly so important as the post-war market will be broad enough to offer opportunities to all. Competition, in a virtual sellers' market, is of small import. Only serious post-war dislocation of our economy, with its debilitating effect on individual earning and spending power, can possibly detract from the highly favorable outlook picture for the automotive industry. The leaders, General Motors and Chrysler, should be eminently suitable for purchase on a longer term basis while the equities of alert and aggressive independents, such as Studebaker and Nash-Kelvinator, offer speculative appreciation prospects on a long pull basis. In the auto parts field, quite a number of equities deserve investor attention. To mention but a few: Borg-Warner, Bower-Roller Bearing, Doehler Die Casting, Bohn Aluminum, Eaton Manufacturing, Electric Auto-Lite, Briggs & Stratton, Thompson Products ap- (*Please turn to page* 488)

Position of Leading Automobile, Truck, Auto Accessory and Tire Stocks

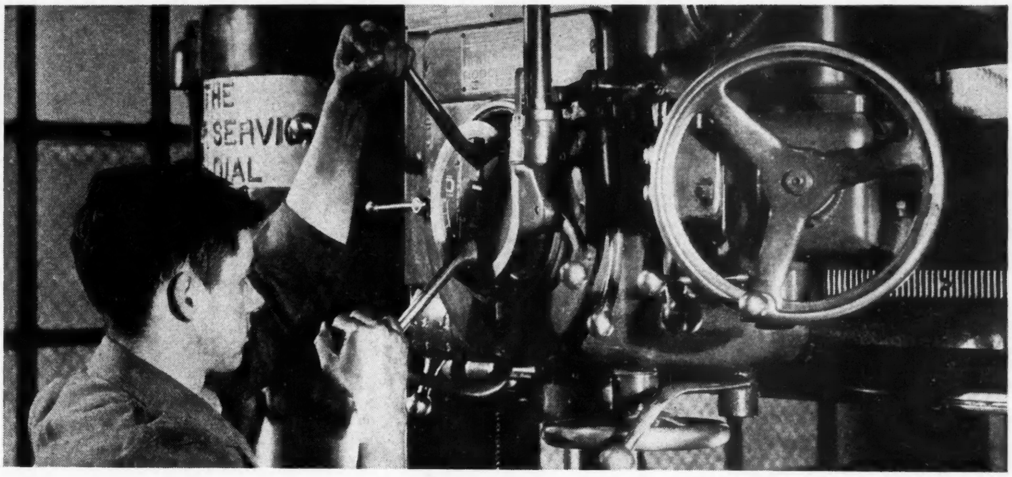
Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	1943 Est. Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	Invest-ment Rating	COMMENT
w Chrysler Corp.	45.69	32.50	9.68	3.57	5.50	7.25	3.50	A+1	War work will reach a rate of $1.75 billions annually. Strongly entrenched position assures excellent post-war profits. Maintenance of $3.50 dividend expected.
w General Motors	22.96	10.73	3.93	3.55	3.50	3.31	2.00	A+2	War production expected to reach annual rate close to $5 billions. Dominating position in automotive field and wide diversification elsewhere assures excellent peace-time prospects.
Graham Paige	0.84	0.13	d0.51	0.37	0.40	None	None	C2	War demand provides current profits. Pre-war record poor. Peace-time outlook uncertain. Large RFC loans bar dividends for near future.
Hudson Motors	20.62	9.18	d1.23	1.34	1.50	0.06	None	C1	War work steadily increasing volume and earnings but peace-time outlook uncertain in view of competitive situation. Dividend resumption possible.
Hupp Motor	1.60	0.11	d0.98	0.37	0.40	None	None	C2	Reorganized in 1942 following several years of losses. Financial position poor. Post-war outlook vague and dividends appear remote.
Mack Trucks	73.06	48.05	1.03	5.00	4.25	1.12	3.00	B3	Handling important war work. Trade position strong but earnings normally subject to wide cyclical swings. $3 dividend should be maintained.
x Nash-Kelvinator	10.77	7.08	0.43(b)	0.89	0.90	0.37(C)	0.50	C+2	Important war orders sustain earnings. Trade position good but post-war outlook depends on cyclical variations in the consumer durable goods field.
Packard	3.41	1.88	0.15	0.32	0.35	0.17	0.10	C+2	Large aviation and marine engine output featuring war work. Post-war auto competition will be keen but interest in aviation field offers good prospects.
Reo Motor	15.05	11.14	d1.01(c)	2.99	2.80	None	0.50	C3	Operations improved by reorganization and war work sustaining factor. Post-war outlook uncertain and return to marginal position appears likely.
x Studebaker	13.25	7.90	0.47	0.92	1.25	None	None	C+1	War orders large.- Basic position improved but post-war competition is likely to restrict prospects though fair earnings may be realized.
White Motor	45.74	32.76	d1.55	5.10	5.20	None	1.25	B1	War earnings high. Holds strong position in truck field where prospects of excellent replacement business. Fair peace-time earnings anticipated.
Willys-Overland	7.15	2.44	0.55(e)	0.53	1.00	None	None	C1	War business good but sharp normal competition and involved financial situation detracts from post-war prospects. Dividend outlook unpromising.
Yellow Truck "B"......	10.94(f)	4.51(f)	0.70(f)	2.41	2.40	None	1.25	B2	Controlled by General Motors. Has strengthened its trade position and post-war record should be much more satisfactory than that of the 1930's.
American Bosch Corp.	10.80	5.45	d0.73	1.63	1.60	None	0.25	C+2	Because of former German ownership, control has been assumed by U. S. Govt. Patents and products important to war effort. Dividend outlook uncertain.
Bendix Aviation	25.43	14.64	1.18	5.90Se	6.25	1.00	3.75	B2	Record sales expected for duration. Strong position in aviation and automotive fields bolster post-war prospects which judged optimistically.
x Bohn Aluminum	42.19	18.07	3.04	6.78	7.00	2.31	3.00	B1	Rapid broadening of its non-automotive markets and maintenance of leading position as supplier to auto-industry characterize good peace-time prospects.
x Borg-Warner	21.85	13.50	3.29	3.09	3.15	1.46	1.60	B2	Output well diversified in auto parts, refrigeration, air conditioning. Replacement needs should provide good post-war demand.
w Bower Roller Bearing	18.69	9.73	3.09	3.54	4.00	2.12	2.50	B1	Normal output well diversified though automobile market dominating client. Post-war earnings should fluctuate with volume of auto industry.
Briggs Manufacturing	18.50	11.21	2.88	2.15	4.00	2.56	2.00	C+1	Leading independent auto body builder. This plus new metal working activity should afford good post-war profits. Continuation $2 dividend expected.
x Briggs & Stratton........	14.66	7.20	3.22	6.00	4.50	3.12	3.00	B3	Leading maker of auto locks and small portable gasoline engines. Good earnings expected to continue in post-war years, aided by growing diversification.
Budd Manufacturing ..	9.15	0.64	d0.54	2.04	1.85	None	None	C3	War work sustains near-term earnings. Its non-automotive diversification will ultimately make operations less dependent on fluctuations in new car output.
Budd Wheel	7.33	2.41	0.38	1.82	1.85	0.10	1.00	C+2	Despite development of new railroad car brake and new metal hardening process, chief dependence is on auto industry. RFC loans and preferred arrears preclude common dividends.
Campbell, Wy. & Can.	20.93	5.70	1.56	2.49	2.50	0.99	1.25	C+2	Broad variations in automobile output is principal normal sales determinant, hence pre-war erratic earnings trend may recur.
x Clark Equipment	42.18	17.00	2.86	4.12	4.00	1.48	3.00	B2	War business substantial. Drills and tools afford diversification but volume of automotive parts and tractors most important profit determinant.

Position of Leading Automobile, Truck, Auto Accessory and Tire Stocks—Continued

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	1943 Est. Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	Investment Rating	COMMENT
Cleveland Graphite....	20.52	1.36	3.73	4.24	4.25	2.20	2.00	B2	War orders substantial. Growing industrial markets will lessen dependence on automotive industry for future income. Continued stable earnings, dividends expected.
Collins & Aikman........	26.19	12.15	4.47	1.07Fe	1.20	2.50	0.25	C+2	War backlog expanding. Auto industry accounts normally for 65% and furniture for 30% of sales. Good pre-war earnings should extend into post-war years.
w Eaton Manuftg. Co.....	31.58	16.27	2.74	4.95	4.75	2.09	3.00	B2	Automotive position strong but aviation and other items also increasingly promising factor in good future outlook. Finances are excellent.
Electric Auto-Lite	22.77	6.72	3.30	3.41	3.45	2.30	2.25	B2	Leading independent in auto electric equipment field. Strong trade position and increasing diversification promise well maintained post-war record.
Electric Stor. Bat.........	40.53	27.40	2.06	2.20	2.25	2.31	2.00	B2	Exceptional stability of earnings should continue as outstanding characteristic. Auto markets lead but outlets well diversified and widening demands expected.
Firestone Tire & Rub.	45.83	(a)	2.48	5.04	4.25	1.41	1.50	B3	War work extensive. Normal production well diversified hence should show greater stability than that of average tire company. Earnings record good.
General Tire & Rub...	26.53	14.35	2.38	2.37	2.40	0.38	1.00	B2	Good post-war replacement markets where strongly entrenched, and growing importance of mechanical rubber division assure continued good earnings record.
Goodrich, B. F...........	42.35	13.74	1.04	5.73	5.75	0.75	1.00	B2	Fourth largest in rubber industry with greater than average diversification. Should benefit importantly from prospective huge post-war demand.
Goodyear Tire & Rub.	36.33	5.36	2.81	5.46	5.50	0.94	1.25	B1	Diversified output but 75% of revenues from tires. Should maintain good pre-war record especially if prospective stabler price structure materialized.
Houdaille-Hershey"B"	7.94	7.08	1.48	1.55	1.75	1.28	0.80	C+1	War work substantial. Auto markets leading but refrigeration and aircraft equipment should aid peacetime sales as will other diversification.
Kelsey-Hayes "B"......	42.00	4.74	d0.05	3.31Ag	3.37	0.38	0.75	C+2	Has large war orders. Should retain leading position as principal supplier of General Motors and Ford; tractor parts sales may become increasingly important.
Lee Rubber & Tire......	47.50	29.25	3.43	4.74	4.70	1.78	2.25	B2	Past steady earnings uptrend should continue in view of large pent-up replacement demand which constitutes company's main market.
Motor Products	17.63	9.65	1.56	1.94	3.00	2.06(h)	0.50	C+1	Makes extensive line of auto parts, also food freezing devices. Normally results vary with automotive business where post-war trends are considered excellent.
Motor Wheel	16.20	7.67	1.79	2.17	2.85	1.18	0.80	C+1	Large maker of wheels, hubs, etc. Also oil heating equipment and other lines. Peace-time operations should be aided by increasing diversification.
Raybestos-Manhattan..	31.93	17.18	2.19	2.58	2.75	1.48	2.00	B2	An established company enjoying broad automotive and industrial markets. Strong finances, good earnings record. Post-war outlook promising.
Reynolds Spring	9.91	4.33	0.57	1.16	1.25	0.50(i)	0.50	C+2	Second largest maker of upholstery springs with auto industry principal client. Earnings record unimpressive but new plastic lines should aid post-war results.
w Spicer Mfg.	45.97	(a)	2.86	10.57	9.00	1.88	3.00	B3	Recent strengthening of old lines and addition of new products have broadened earnings base which should produce good results in post-war trade.
Stewart Warner	18.51	11.80	0.85	1.25	2.60	0.56	0.50	C+1	Increasing diversification improving outlook and broadening company's trade position. Post-war prospects fair with Alemite division probably largest earner.
Thermoid Corp.	3.21	(a)	0.19	0.72	1.00	None	0.40	C+1	Pre-war record unimpressive. Increased operating efficiency and developments in plastics and other lines aid post-war outlook. Moderate dividend may continue.
x Thompson Products	37.56	14.79	2.68	6.49	6.60	1.11	1.50	B1	Peace-time prospects enhanced by increased diversification, especially in aircraft parts field where company will remain active after the war. Good earnings trend should continue.
Timken Detroit Axle..	20.86	15.03	2.18	5.25	5.30	1.50	3.25	B2	Expansion in oil burner and machinery equipment fields should supplement earnings from well-established automotive outlets, hence outlook good for further improvement of earnings trend.
Timken Roller Bearing	21.06	10.86	2.99	2.68	2.70	3.06	2.00	B2	Leader in the field of tapered roller bearings. Widening of their adaptation and company's activity in the high-grade alloy steel field important factors.
x U. S. Rubber.............	32.38	1.76	1.16	1.82	2.25	None	None	B1	Largest rubber products fabricator. Operating status greatly improved. Extensive non-tire business bolsters favorable post-war outlook.
Young, L. A................	23.11	8.24	1.76	1.15	1.80	1.38	None	C+1	Leading maker of spring wire products. Widening diversification in moulding field should help to improve further the promising post-war outlook.

(a)—None available because of excessive prior obligations. d—Deficit. Se—Year ended Sept. Fe—Year ended February. Ag—Year ended August. (b)—1936-37 incl. (c)—Predecessor Co. (e) 1938-40 incl. (f)—Combined common and "B" stock. (h)—Excl. of 100% stock dividend Feb., 1936. (i)—Exclu. of 100% stock dividend June, 1936.

Key to Investment Ratings: A+—Top quality; A—High grade; B—Good; C+—Fair; C—Marginal. Figures following Investment Ratings denote Earnings Trend as follows: (1) Upward; (2) Steady; (3) Downward. x—Recommended for Appreciation. w—Recommended for Income.



National Machine Tool Builders' Association

Appraising Near and Longer Prospect For Machinery, Rail and Office Equipment

BY RICHARD COLSTON

UNTIL the defence program got well under way, the production of machinery and machine tools was generally one of the most erratic industries because nearly the totality of its production was utilized for producer's goods, that is, was dependent on capital investment. Such orders rise to great heights usually only at the end of a cycle. They are cancelled almost as soon as recession begins, then shrink to almost nothing. They are slowest at getting under way after recovery for such longterm costly investments require optimism for their acquisition.

It follows that prosperity for the industry is necessarily concentrated in a smaller number of years, relative to the business cycle, than any other. Despite this undue concentration of gross business, profits have not followed quite so extreme a course. The 50 leading companies in the line made about $230 millions net in the decade 1930-1939 inclusive, an average of $23 millions a year as against an average of $75 millions in the two peak years 1928-1929. While the decline was far greater than for industry as a whole there were few receiverships or reorganizations: the companies managed to swim in an era of timid capital reinvestment.

Since 1939 the rise of machinery production has been as much larger than industry as a whole than its decline had been steeper than the average. Its production soon increased 300% and now has reached 360% of midsummer 1939. Despite this, the prices of machinery and machine tool stocks have moved with the market averages whereas on the expansion of profits, they should have far surpassed it. But these stocks are weighted down by skepticism as to the future of the industry when war ceases.

A leading dignitary of the machine tool trade opined that there was now ten years excess supply of machine tools on hand and that the industry would be confined to servicing, repairs, replacements and a few specialty designs, but emphatically would not be engaged in new production. The Department of Commerce thought otherwise, looking to an advance of 70 to 100% for general machinery over 1940 by 1946, should peace then prevail. The industry could prosper on that basis, which would be at about the ratio of 250-260 to 1939 production.

The machinery pessimist has disregarded all export potentials or changes in mechanical processes. Many companies scarcely sell for more than three to four times latest earnings and 15% to 20% is sometimes asked as an annual yield to compensate for a dark future. In the meantime, with ceiling prices and rising costs, with renegotiation as a stiff deterrent, with a higher tax bill, the machine industry, by and large, is doing at least as well as in 1942, and the latter half of the year looks even better for most companies.

Should the European War cease in 1944 and the Oriental War go on for some time after, the machinery producer would face another two to three years of reasonable war prosperity and by that time the excessive use and new developments of industrial machinery would help build up a compensatory market. If the government's prophecy is exact that construction will rise to twice its previous high in the Twenties, then companies like Bucyrus-Erie, for example, with their excavators, have only begun a

great earnings upsurge. A consumer's provider like U. S. Hoffman Machinery is even adversely affected by war. So is United Shoe Machinery. So, for a wonder, is Wayne Pump, although Worthington flourishes in war. Caterpillar Tractor is not a too conspicuous gainer. What is needed is some discrimination as to the diversified uses of the specific production of many companies.

War production must taper off, not because of the prospect of peace, of necessity, but because of sheer physical capacity limits. New machinery orders in May 1942 were 670% of 1939 and now stand at 360%, or enough to continue the present capacity load of production. Mere accumulation of orders cannot create new capacity, for no one will extend capacity for a mere two years' production. Thus while the machinery companies are assured of peak war earnings, the market is right in holding that a greater net income cannot be anticipated for the war period because gross can no longer compensate for increasing cost items.

The attention of the investor, in the face of static or slightly recessive prevailing earnings must center on peacetime possibilities. Also, the net investment of new capital equipment having been larger in 1941-2 than for two decades preceding, it is obvious that the demand for machinery products will be focussed on those associated with housing construction, or who make machines useful for the production of secondary machinery required for consumer's durable goods, or textile, or baker's machines, air conditioning, refrigeration, canning, cement (not concrete, mostly useful for factories), confectionery, cranes, flour mills, glassmaking, hatmaking, laundry, leatherworking, packaging, paintmaking, paper-container making, pharmacals, sewing machines, shoes, stoneworkers, or for tobacco products, or woodworking; in short for that enormous section of industry whose requirements are now subject to priorities. But the Utilities have far from exhausted power installation and modernization. Diesels have a long run ahead irrespective of the saturation of

A System Service girl operating a card punch machine of the International Business Machine Co.

machinery generally. In the accompanying table some indication is given as to which companies in this complex field have future possibilites as well as unprecedented war time earnings. In a sense there is no machinery industry: there are producers rather of mechanical intermediates for the service of other industries. Hence the needs of these industries determine the future of the machinery specialist. While earnings are favorable for the balance of 1943, it does not follow therefore, that many stocks, such as those of the construction machinery makers should be sold because the best news is over. In them the investor had the best of both worlds: high yields today, and continuing dividends. But there is no conspicuous market future, at the moment, for the group. It is necessary to pick companies, individually, not for their immediate earnings nor for their early market recovery, but on a recovery basis, for the longterm. The market so completely disregards the short term earnings perspective that they are not valid as a basis for price hopes.

Reconversion to Peace Creates Machinery Needs

The basic recovery factor for machinery stocks is that reconversion works both ways. If there was an unprecedented rush to re-equip and implement our factories for war production, it must be remembered that re-tooling is one of the crucial costs of reconversion to peace. Thousands of tools that have served to produce older types of automobiles are now obsolete. Freight car manufacture, in the new lighter metals and designs, requires wholly different machining. Civilian airplanes call for very different machine work than bombers, fighters and trainers. If we are to convert factories now employing over twenty million persons in war work to civilian use, we will not merely have an active demand for new tools: the new tools will be of a wholly different character in many industries by reason of changes in techniques, in trained help, in fine measurement, in new materials, all of which arose by reason of the war.

For example, if there is a shift to new alloys and to plastics, the machinery used on heavy iron will be of little use. Plywood calls for different mechanical treatment than the heavier materials it displaces. Chemical processes require new containers and these call for new machines. Treatment of tin cans to avoid heavy tin plating may require different machines, even if their design is not critically different from the preceding. Even granting that a large number of tools can be adapted to new requirements, their redesigning, servicing, and the auxiliary tools called for by their new functioning would of itself call for more production. Hence the expert economists' opinion (contradicting trade despair) which states that new construction and consumers' durable goods industries necessary after the war, and new materials, will alone keep machine tool production above pre-war even after the recent record-breaking output, seems justified. The export market should particularly benefit from the peace, since Germany, one of our leading competitors, will for years be a neg-

ligible factor in world trade, and most of the European machine producing areas will be busied with mere domestic reconstruction.

Hence continuing reasonably good earnings in 1943 and indicated good earnings for 1944 may be sustained once taxation diminishes, costs decline, ceilings are removed, orders are private rather than governmental, in the post-war period. A volume of half the present business can easily produce more net.

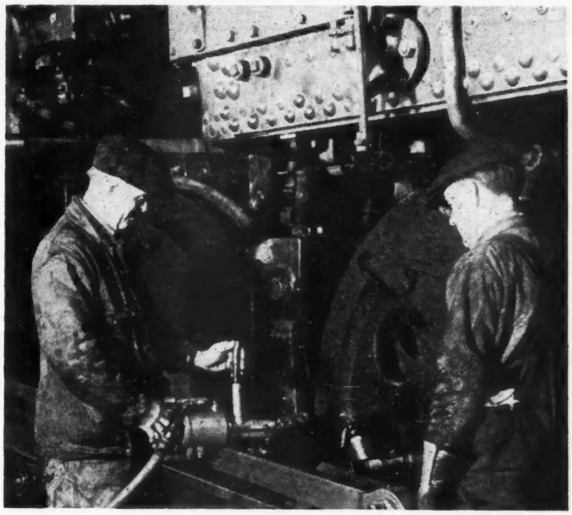
The Office Equipment industry, as a whole, faces a slight recession in 1943 earnings as against last year. A few companies have done slightly better than in peace, but several have dipped below and in neither case is the net difference startling. Considering the change in emphasis from typewriters, private calculating and registering machines, tabulating and bookkeeping enterprise to a war basis, it is remarkable to note the constancy of earning power, which bespeaks a good investment rating for the industry as a whole. With the exception of typewriters and cash registers, the principal lines of manufacture have been maintained, since there is no employer as great as the government nor one requiring more tabulating, statistical, time stamping, classifying and accounting machines. Bureaucracy always requires incredibly more records than private enterprise. Hence regular production remains basic, which will reduce conversion costs considerably. It is expected that the restrictions on typewriters will soon be alleviated, as the second hand market is closed, since few will yield typewriters when they are so difficult of replacement.

Export Market Important For Office Equipment

Retail trade is not expanding as to number of stores and cash registers are supplied either out of stock or from the large number of small shops that have gone out of business, especially in defence areas where the proprietors would rather take defence jobs than face rationing and help problems. While profits on government production has been smaller than that on private sales, selling expenses and advertising prestige items have cost less as has warehousing, etc. The industry faces the usual dilemma of ceiling prices and government "squeeze" on bases for compensation despite rising labor cost and lessening labor efficiency due to the substitution of untrained personnel. Hence net after taxes in 1943 should be slightly lower.

A pentup demand for office equipment is clearly developing. Certainly the once significant export market, which took up 20% of our production, will partly revive. Most of the companies have sizable investments abroad, which will be restituted to some extent. A large number of office machines are worn out, second-hand or obsolete.

On the other hand, the enormous accumulation of government-held office machinery will require skillful handling as otherwise it can disorganize the recovery of the normal market for many years. As it is, it puts a limit on upward price possibilities in this field, even when slowly liquidated.



Assembling a Southern Pacific locomotive at the Baldwin Locomotive Works

Hence companies that depend on leases, such as Pitney Bowes or, more conspicuously, International Business Machines, are to be favored, especially as the latter would receive a fifth of its properties back after the war. National Cash Register had half its sales abroad, Remington-Rand a third, Addressograph a fourth. Peace is such a boon to these that it far outweighs the temporary difficulties arising out of the rhythm of disposal of government stocks of these machines.

The railroads, whose orders were once decisive for heavy industry, receded after 1929 to a very unimportant place and the consequent effect on rail equipment company earnings was little short of disastrous. The war revealed to Americans that our transportation possibilities were utterly inadequate unless the rails were considered, not merely auxiliary means of moving freight, but as still the primary, reliable goods transport medium. It was soon seen what a small part was played by the air lines, how dangerous shipping could become, and a crucial tire and oil situation indicated that however useful truck transport was, it could not compare in long hauls with the rails for adequacy and cheapness. The country not only awakened to the importance of railroads: it suddenly realized that they were not antiquated, that they had improved lomotive capacity and freight car efficiency and reduced labor costs perhaps as much as the much more publicized ultra-modern industries.

It is now obvious that the government, on a permanent defence basis, will take a lively interest in the rails and that the long epoch of hostility towards them, which began with the muck-raking of the 1886 regulations, is drawing to a close. It is estimated that the rails will spend 600 millions per annum for the next decade, but this is admitted to be a minimum estimate. That is based on the assumption that the type of rail equipment will not change too radically. But, actually, the new light materials passenger cars and large capacity freighters, the possibility of cheap tourist (*Please turn to page* 486)

Position of Leading Machinery and Machine Tool Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	1943 Est. Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	Investment Market Rating	COMMENT
Amer. Mach. Fdy.......	11.91	5.14	1.01	1.13	1.05	0.90	0.80	C+2	Dependence primarily on war orders points to continuing reduction profit margins and tax burdens. Ability to re-equip for much needed special cigar and other machines makes good peace prospect. Dividend should be continued.
Babcock & Wilcox......	42.42	23.77	2.65	5.00(E)	4.75	2.02	1.50	C+3	Infrequent reports compel use of estimates, but $5 earnings were indicated and will nearly hold. Civilian boiler production should match navy work and dividend basis could be raised to $2.
Black & Decker..........	19.80	12.24	1.98	1.72Se	1.60	0.75	1.60	C+2	Electrical products of company face pent up demand. Foreign subsidiaries have bright future. Liquid capital position and peace earnings point to higher dividends.
E. W. Bliss..................	34.22	13.76	0.48	7.57	7.75	None	2.00	C+2	Ample reserves cushion post-war uncertainities. Prevailing earnings rate may continue for several years. May prove long-term dividend payer though peace record was unimpressive.
Bucyrus Erie	12.40	6.43	0.80	1.04	1.10	0.31	0.50	C+1	First half year's showing will aid annual net but in 1944 margins may recede somewhat. Post-war reduced earnings may be partly compensated by development British subsidiary.
Buffalo Forge	15.73	10.57	1.71	2.95Nu	3.00	0.50(b)	2.00	C+3	Air conditioning possibilities still large. War orders have not yet surpassed miscellaneous average earnings sources for net income. Peace possibilities limited but company very sound.
Bullard Co.	30.10	8.08	1.66	8.63	8.25	1.06	2.50	C+2	Rise of costs indicates smaller earnings on average war volume. Long-term earning power and uncertain post-war situation indicate present dividend policy may be on short-term basis.
Caterpillar Trac. Co.	26.85	16.00	3.69	3.72	3.60	2.12	2.00	B2	Release of farm equipment production aids continuity of regular civilian production. Earnings basis appears stable in peace or war. One of the few machinery stocks almost certain to fare better in peace.
Chicago Pneu. Tool....	16.35	....	1.33	3.97	4.00	None	2.50	C+2	War business has expanded gross income to unheard of dimensions. Present earnings indications favorable. But dividends are entirely war based and working capital has not yet backed the common stock.
Fairbanks, Morse	47.06	23.89	2.96	4.47	5.00	1.25	2.50*	C+2	Process of conversion to war production, completed, adding to earnings. Renegotiations also over. Good peace time earner. Dividend extras could be expanded.
Food Machy.	28.17	21.13	2.83	4.07Se	4.40	1.81	1.75	B2	Short-term earning prospects advance due to increasing war production above first quarter. Backlog of canning equipment should induce better than average earnings. Dividend could be raised.
Foster Wheeler	28.53	9.02	d0.51	5.63	6.00	None	....	C+2	Earning power wholly derived from war. If preferred arrears are paid up, present strong working capital position permits a common dividend. Higher profits indicated for near term.
Ingersoll Rand	40.55	26.35	6.86	5.90	6.00	5.87	6.00	B2	Consistent leadership in field from mining machinery to new machanisms such as rubber, indicate steady post-war earnings, especially in export field. Dividend policy liberal but can hold.
Link Belt	30.11	15.26	2.75	4.64	4.80	2.31	2.00	C+2	In position to benefit from any improvement in construction and public utilities buying but reconversion may prove costly. Temporary earning power gaining. Can pay extra dividends.
Mesta Machine	15.59	4.52	3.64	3.63	3.50	3.00	2⅞	B2	Specialties in iron and steel machinery may be confronted with over-capacity but export possibilities may buoy long-term earnings.
Monarch Mach. Tool..	31.70	18.17	2.70	5.27	5.00	1.59	3.00	C+3	Faces slight recession in earnings due to costs, renegotiation, ceilings, but production excessive in proportion to known post-war demand. Barring surprises, dividend can merely hold, and may not be fully maintained in peace. Capital position good.
National Acme	27.80	18.83	1.44	4.77	4.50	0.62	2.00	C+2	Immediate earnings seem to have reached peak and company's peace record is moderate: dividend must be viewed as war disbursement.
Niles-Bement-Pond	21.95	8.43	5.27	4.56	4.20	1.50	1.25	C+1	One of the few in the group that did better in peace: part of its line subject to backlog demands: finances sound: dividend could be increased easily.
Savage Arms	13.40	8.90	1.65	2.45	1.85	1.06	1.75	B3	Earnings are considered war based but actually recurrent and diversified business has done quite as well in peace. Faces a large inventory of second-hand products that are competitive.
United Eng. & Fdy.....	16.48	7.58	3.64	3.71	3.90	3.06	2.25	C+2	Heavy machinery producer with solidly established earning power, whose war earnings barely compensate for routine business. May face recession after war, but dividend should be paid.
U. S. Hoffman Machy.	21.06	15.28	2.75	1.20	1.10	None	0.50	C+1	A poor war earner but the backlog of laundry and pressng and other tailoring machinery may result in peace earnings above $3. Financial position high grade.
Worthington Pump	11.17	....	0.26	7.86	8.00	None	....	C+2	Has been lavish in reserve policy to take care of conversion and orders recession, yet arrears are being paid on senior capital. In good position for dividends.

(B)—1935-1939 average. (D)—Deficit. (E)—Estimated. *—Includes extras.

Position of Leading Railroad Equipment and Accessory Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	1943 Est. Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	Invest-ment Market Rating	COMMENT
American Brake Shoe	37.54	11.93	2.60	3.22	2.80	2.06	1.70*	A2	Earnings before taxes decline sharply but reduced tax liability reduces recession in earnings. Peace-time earnings fairly constant and dividend should be maintained.
Amer. Car & Fdy.......	92.48	16.20	d3.50	5.05	5.00	0.06	....	C+1	Recent earnings statement showed tremendous scale-down after renegotiation. Overcapitalized. War dividend to continue but long-term dividend policy dubious.
Amer. Locomotive	....	....	d1.58	3.37	3.50	None	....	C+3	Elimination of preferred will change earning power common stock, but latter half year prospects look good, this may presage dividend before peace. Long-term backlog prospects fair.
Baldwin Locomotive ..	37.08	5.64	1.05	4.23	3.80	None	1.00	C+1	Reduced tank production may lower earning power last half year. War business still inflates sales. Company in a position to pay as high as $2.50 during war period.
x Gener. Amer. Transp.	63.09	....	3.53	3.27	3.40	2.78	2.00	A2	Has large war production, continued output standard lines, carrier receipts and recovery prospects. Earning power tending upwards: could pay $2.50 dividend.
General Rwy. Signal..	20.08	9.98	0.31	2.45	2.50	0.43	1.25	C+1	Benefits by need of congested railroads to keep signalling up to date. Earnings seem stable for several years and post-war business should be fair. Dividend may be raised.
Lima Locomotive	58.80	27.85	d0.11	7.79	8.50	0.63	2.00	B1	Will benefit from construction industry as well as rails after war. Dividend could be doubled view earnings and strong working capital position. Post-war earnings should better poor pre-war showing.
x N. Y. Air Brake.........	35.30	12.37	2.18	4.01	3.40	1.44	2.00	B3	Larger volume business being done at less profit per unit will slightly depress earnings. Good capital position and fair peace earning prospects indicates retaining dividend rate.
Poor & Co. "B"........	13.92	....	0.46	1.44	1.35	None	....	C3	Subcontracting operations large but company is thus twice dependent on war profit margins. Arrears on "A" dividends must precede "B" dividends. These not likely until post-war production changes.
x Pressed Steel Car......	7.80	....	0.87	2.18	2.25	0.06	0.50	C1	Heavily capitalized company whose common is dependent on large gross volume for dividend maintenance. Expects to benefit from freight car re-orders after war.
w Pullman, Inc.	60.15	27.23	1.63	3.14	3.00	1.66	3.00*	A2	Carrier business done mostly at government reduced rates; hence immense war production slightly profitable only. Dividend policy generous: dependent on post-war equipment orders which seem favorable.
Super Heater Co.......	17.98	6.70	1.06	1.73	1.75	1.17	1.20	C+3	Recent serious reduction earning power seems arrested; now stabilized about $1.75 level. Dividend policy about as generous as earning prospects permit.
Union Tank Car..........	33.24	9.27	1.67	2.51	2.80	1.35	1.90	C+1	Strong working capital position and reliable earning potentials indicate possible extra dividend disbursements for war period. Peace may show slight recession but basis sound.
x Westingh'se Air Brake	15.43	10.39	1.25	1.33	1.45	1.06	1.25	A2	Steady earner seems to show wider margins in prospective operations. Dividend may be slightly increased but solid management would make this temporary. Post-war position among best in group.

Position of Leading Business Equipment Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1942 Net Per Sh.	1943 Est. Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	Invest-ment Market Rating	COMMENT
Addressograph-Multi..	13.52	5.53	1.72	2.18Jl	2.05	1.17	1.00	C+2	Civilian business remains at fair level due to need service large number machines. Government profits and taxation, however, should slightly reduce overall net. Dividend safe.
Burroughs Adding	6.66	5.00	1.00	0.90	0.90	0.88	0.60	B2	Ordinary busines holds up well with priorities liberalized. Government business large but margins narrow. Earnings stable; dividends unlikely to increase.
Intl. Business Mach.....	52.85	....	10.47	8.77	9.00	6.37(b)	6.00(a)	A2	Ample reserves obscure good earnings showing. Lease income steady. Earnings may possibly exceed $10 if reserve policy less conservative. Restoration European properties long-term favoring factor.
x National Cash Regis.	23.27	14.36	1.71	1.93	2.00	1.06	1.25	B2	Cash register manufacture discontinued; sales continue out of inventory. Other equipment still produced. Armament activities large. Peace prospects good: present earnings assured. Dividend could be raised.
Remington Rand	5.74	3.84	1.35	2.00Mr	1.80	1.66	0.85	C+3	Priorities eased for accounting machine production. Continuing government business balances shortage civilian production. Earnings adversely affected by taxes. Dividend probably stationary.
Royal Typewriter	33.97	25.01	6.08	8.23Jl	7.50	2.69	4.00	B3	Early earnings statements show war conversion bogs down earnings. Sharp earnings recovery likely in latter part year. Recovery foreign assets long-term factor. Dividend rate assured.
Underwood-Ell.-Fisher	35.92	28.17	4.18	3.04	2.80	2.97	2.50	A3	Primarily converted to war production but is favored by possible resumed typewriter production and easing into civilian production generally during war. Profit margins smaller but dividend safe.

(B)—Plus 5% in stock. (A)—Stock dividends. *—Includes extras. (D)—Deficit.

Selected Utility Issues

WITH OUTSTANDING PROSPECTS

BY FRANCIS C. FULLERTON

UTILITY stocks have enjoyed a bigger advance than industrials in the past year—particularly junior holding company issues with high "leverage." This market metamorphosis seems based on improved tax treatment at Washington, and lessened fears of harsh orders from Philadelphia (new home of the SEC). The political trend to the right in Washington (with members of the SEC and FCC "on the grill" before Congressional committees) has had substantial effects on market psychology. It is felt that the commissions will go a little slower in exercising extreme powers which they now possess under the Utility Act, and it is even possible that the act may be amended. There is evidence of a conciliatory, give-and-take policy between the commission and some formerly recalcitrant utility managements.

Moreover utility stocks are "peace stocks" because they will have little or no problems of transition to a peacetime basis. While war needs for electricity are tremendous, the industry makes a very small margin of profit on this business, and much of this profit is absorbed by taxes. Excess profits taxes will serve as a buffer when the business disappears—Uncle Sam will absorb a good part of the loss. Moreover, with household electric equipment again available the important residential load, which returns the biggest profits, will resume its growth.

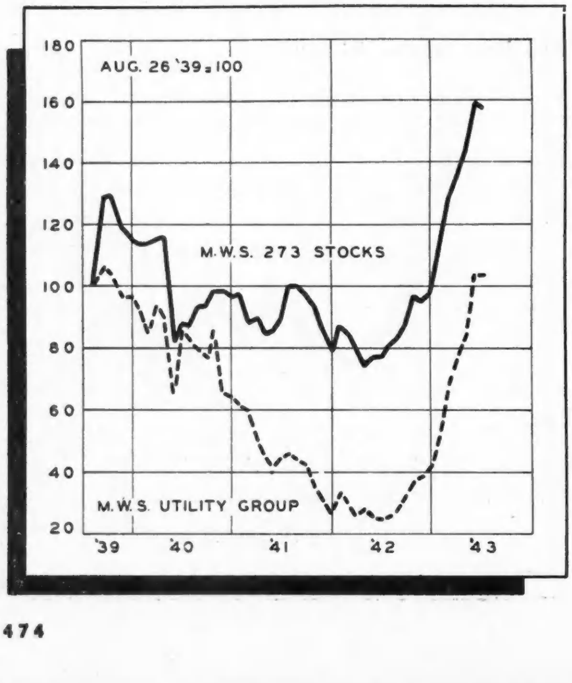
Then, too, the utilities are doing surprisingly well with their current earnings. In World War No. 1, utilities were hurt by rocketing fuel and metal prices. This time the government is doing its best to hold down prices; and wage increases have been more than offset, in many cases, by the reduced number of employes due to shifts to the armed forces. Some utilities are also effecting important economies such as bi-monthly billing; Consolidated Edison alone will save $2,000,000 a year by this method.

For the month of May the net income of all class A and B privately owned electric utilities in the United States showed a gain of 15.8% over last year, according to an FPC report recently released. These figures show progressive month-to-month improvement in relation to 1942. While part of the gain may be due to tax adjustments, nevertheless the results are encouraging and help to explain the improved market morale of the utility group.

Needless to say appreciation possibilities have now been somewhat reduced by the excellent comeback already registered in the past year or more. Nevertheless excellent yields are still obtainable in utility stocks as compared with high-grade industrials, and with confidence in the future of the industry restored, investment buying may continue to mark up prices of the better issues. With high-grade utility bonds selling to yield 2½-3½% and good preferred stocks returning less than 4% in some cases, the large spread between these yields and those obtainable on common stocks seems likely to narrow further. The common stocks listed in the accompanying table offer an average yield of over 6%, and the holding company preferred stocks average over 7%. The common stocks have all paid dividends without interruption for many years, the lowest record being 24 and the highest 50. We comment briefly as follows on these issues: which are selected for yield and appreciation possibilities:

Commonwealth Edison was the cornerstone of the old Insull system and the succeeding management has placed its finances on an excellent basis. The present dividend rate is conservative in relation to earnings. While appreciation possibilities are limited to some extent by the large amount of convertible bonds outstanding, the stock is a favorite item in high-grade portfolios. Share earnings for the first quarter showed a 10% gain over last year and second-quarter results should also prove favor-

Relative Market Action of the Utility Group



able. The capital structure is very sound—about $345,000,000 funded debt and $363,000,000 common stock equity—there is no preferred stock. Conversion of additional bonds into stock will further strengthen the picture.

Consolidated Edison was shunned by investors last year when the price dropped to 11⅜, despite the splendid 50-year dividend record, strong cash position and conservative capital set-up. Apparently they feared further cuts in the dividend rate due to heavy Federal taxes, and were apprehensive over Mayor LaGuardia's indicated desire for municipal ownership and lower rates. While residential rates are fairly high, costs of distribution are naturally high also, due to realty values, congested population and carrying of wires underground. Until recently Edison's output lagged, due to the relative dearth of war orders in the New York area, but a huge block of power is now being sold to a new aluminum plant and kwh sales for the week ended July 17 were 25% over last year. The $1.60 dividend rate now seems reasonably secure, and while "Edison" is gradually being reinstated in its position as the leading operating company stock, the yield of 6.7% remains generous.

Detroit Edison has been somewhat disappointing. Though situated in the heart of the war production area, earnings have declined due to excess profits taxes, making the current rate of return on capital only about 4½%. It has also been beset by rate troubles. The city of Detroit, backed by the Office of Economic Stabilization at Washington, some time ago asked for a substantial rate cut and suggested that excess profits taxes should not be figured as an operating cost! The Michigan Public Service Commission, in a little-publicized decision dated July 17th, rejected this reasoning, stating that "a dollar paid out for taxes is no more available as income and return than a dollar spent for labor or any other legitimate expense . . . we, therefore, find that all taxes are a proper operating charge." Another unfavorable influence has been the stock overhanging the market, owned by American Light & Traction and North American Co. The latter has now been disposed of however, and it is possible that the former may be partially distributed to holders of American Light & Traction preferred stock.

Pacific Gas & Electric serves a considerable part of the state of California. While some investors fear the earthquakes and political uncertainties for which that state is noted, as well as the Company's long-standing contests with Mr. Ickes over Hetch Hetchy and Central Valley, the company has an exceedingly sound record. The capital set-up is on the conservative side, rates are low and the allowance for depreciation and maintenance is generous. Here again the stock may be handicapped by the blocks owned by holding companies: Standard Gas has already indicated its intention to sell its holdings and North American Co. may dispose of its holdings (they are now being used for dividend payments). Current earnings are good, considering the very effective dim-out in the company's coastal territory. The yield of 6.7% is high, considering the stock's quality.

Pacific Lighting is a large natural gas holding company, but because of the simple set-up and good record we have listed it in our operating company group. Earnings fluctuate somewhat with weather conditions and other factors. The two subsidiaries supply natural gas to Los Angeles and 248 other communities in southern California. The company has paid common dividends for thirty-four years. Stock dividends and subscription rights have also been given to stockholders and the stock was split ten-for-one in 1927. Earnings in recent years have decreased only slightly under the impact of heavier taxes.

	Price About	Dividend Rate	Yield About
Common Stocks—Operating Cos.:			
Commonwealth Edison	27	$1.40	5.2%
Consolidated Edison	24	1.60	6.7
Detroit Edison	22	1.20	5.5
Pacific Gas & Electric	30	2.00	6.7
Pacific Lighting	45	3.00	6.7
Southern California Edison	24	1.50	6.3
Consolidated Gas (Baltimore)	67	3.60	5.4
Boston Edison	34	2.00	5.9
Common Stocks—Holding Cos.:			
Public Service of New Jersey	17	1.00	5.9
North American Co.	18	*	*
American Gas & Electric	29	1.60	5.5
American Light & Traction	18	1.20	6.7
Preferred Stocks—Holding Cos.:			
Amer. Water Works & Elec. $6	85	6.00	7.1
Columbia Gas & Electric $6	72	6.00	8.4
Electric Bond & Share $6	78	6.00	7.7
Engineers Public Service $5	81	5.00	6.2
Philadelphia Co. $3	49	3.00	6.1
West Penn Electric $7	93	7.00	7.6

*** One share Pacific Gas & Electric for each 100 shares held. In previous quarter one share of Detroit Edison was paid for each 50 shares held.**

Southern California Edison is a hydro property with a sound record. The stock is perhaps less attractive than that of its neighbor, Pacific Gas & Electric, since earnings have dropped sharply in the past year and are now barely sufficient to cover the dividend. The decline was due largely to sharply increased federal taxes, including excess profits taxes.

Consolidated Gas of Baltimore enjoys a very high credit position, its 3% bonds selling on a 2.55% yield basis, while the preferred stock returns only 3.8%. The present $3.60 dividend on the common, which yields 5.4%, has been paid for the last 14 years. Dividends were initiated at the equivalent of $1.00 on the present stock (there was a split-up in 1925) in 1910 and the rate steadily increased in the next two decades—there has apparently never been a cut in the rate. Valuable subscription rights have also been given. The company maintains an unusually sound cash position, net current assets in 1942 amounting to $9,205,114. The company during 1941-42 avoided the excess profits tax bracket.

Boston Edison, as might be expected from the New England tradition, has a very conservative set-up. Capitalization consists of $53,000,000 2¾s rated AAA, and 2,468,656 shares of common stock. Dividends have been paid (*Please turn to page* 490)

FOR PROFIT AND INCOME

Rails to the Fore

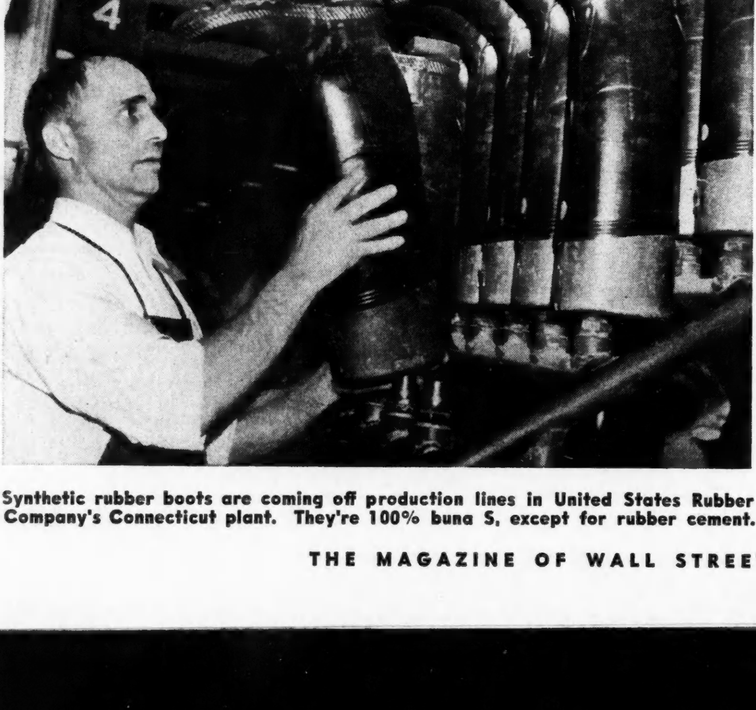
As in a circus, there is always something going on in the stock market; and the spotlight shifts from one star "act" to another. For some time air lines and soft drinks had the center ring. Coppers and steels tried for the limelight without too much success, but may yet make it. At this writing, it's rails that catch the eye—with a fair chance it may be something else again before these words make their appointed rounds through composing room, press run, bindery, mailing room and thence to eager (we hope) readers. The latest rise in the rail average to a new high has been "different" in that investment demand for the cream of the crop—Atchison, C. & O., Louisville & Nashville, Norfolk & Western, Virginian and Union Pacific—has been its backbone. Among more speculative rails, Southern Pacific is back in favor. Percentage-wise, many rails are today substantially below previous highs which in most cases were made in April or May. This is true, for example, of B. & O., Coast Line, Canadian Pacific, D. & H., Illinois Central, D. L. & W., Southern. On the realistic basis of financial strength, current dividends and probable future dividends, the price gap between the good rails and the borderline equities still seems to us to be too narrow. Whether it will be widened by further advance in the former or decline in the latter remains to be seen, as there is no accounting for speculative fancy. Meanwhile all, along with the market, have shown that they are by no means immune to reaction dictated by radical change in the war outlook.

Merchandising Stocks

In an unspectacular way, the great majority of retail trade stocks recently have been hanging on to prices very close to their recovery highs. With a few exceptions, they don't look exactly cheap on earnings and yield — but it is interesting to note that the bullish market consensus has to date proved a more accurate indicator of retailing conditions and prospects than has much of the published comment of analysts and even of merchandising executives. Recently there had been much conjecture about the trade effects of the 20 per cent withholding tax. If it has had any effect at all, it is not visible to the naked eye. The substantial gain in dollar volume over a year ago continues to be closely in line with what it had been before the tax was imposed. While there are, of course, some selective shortages of goods, the over-all shortage of things for merchants to sell — talked about for months — is still "beyond the horizon." Indeed, here and there the supply situation in civilian goods will ease somewhat in coming months. This is true of textiles; true even for a few types of consumers' durable goods on which WPB has loosened its reins.

Building Outlook

For some months the charted ratio of the building materials group to the Dow-Jones industrial average has been almost a



Synthetic rubber boots are coming off production lines in United States Rubber Company's Connecticut plant. They're 100% buna S, except for rubber cement.

straight line. In other words, market action of the group is notably "average," which has meant up to now a slow rise since March. This is rather striking proof that investors and speculators have eyes mainly for post-war potentials — since building volume has declined greatly from its war-time peak and will shrink further over the remainder of "the duration." Total building volume for the first half year is estimated by the War Production Board at $4,600,000,000 or 22 per cent down from the first half of 1942. By normal standards, the half-year figure—at annual rate over $9,000,000,000—is not small but large. However, the monthly rate of shrinkage is increasing. May volume was 34 per cent down on year-to-year comparison; and June-July figures will probably show a larger dip.

Twenty Backward Stocks

	Price End of 1942	1943 High	Recent Price
Bath Iron Works	13⅝	20⅜	16
Newport News Shipbuilding	17¼	21⅞	16¼
New York Shipbuilding	21⅜	26⅜	19½
Bell Aircraft	11¾	20½	14½
Boeing	15	21¼	16⅛
Consolidated-Vultee	16⅛	21½	16
Douglas Aircraft	56	73½	62
Lockheed	16¾	25⅜	18⅛
Martin	18½	24	18⅛
United Aircraft	25½	40	32½
Bullard Co.	19⅜	29¼	19¾
Ex-Cell-O	25¼	29¼	25⅜
National Acme	15⅜	19⅜	16½
Timken-Detroit Axle	28¼	34¾	28½
American Smelting	37	47⅞	46⅛
Consolidated Copper	4½	6¾	4¾
Phelps-Dodge	24⅝	29⅜	24⅜
Inspiration Copper	10	15⅝	12⅛
Climax-Molybdenum	39	48½	39
St. Joseph Lead	28½	36⅞	30⅝
Average	22⅛	29⅝	21¼

The above so-called "war stocks" have advanced this year at best prices only 34% or much less than the market; and reacted from their high much more than the market. They have been discounting peace and peace problems.

Oil Supply

Disregarding minor fluctuations from week to week, the oil group throughout the life of the bull market to date has persistently shown greater strength than the industrial average. The reasons are basic and continuing. Therefore it seems probable that good oils will advance more than the market in any further period of general strength; and react less than the industrial average when general weakness appears. On the whole, war-time earnings are reasonably good. Post-war volume prospects are assuredly favorable. Due to decline in proven oil reserves and necessity to stimulate drilling, long-term price factors probably will be more favorable to profits than was the case before the war. As a factor in equity values, this column is not overly excited about "inflation" but nevertheless the generally accepted "hedge" attributes of crude oil producers and of the integrated oils gives them an undeniable market advantage. Other things being equal, the crude producers and integrated companies look like better bets than companies solely or mainly in refining and marketing—but other things (especially market price) are never equal. With the current popularity of the producing oils there goes a price premium of considerable magnitude. Outlook on the refining and marketing end may be better than the present consensus allows for. From here on we will not be so profligate in supplying oil for United Nations' war needs. The Mediterranean is now open, the U-boat menace appears to have been liquidated and more and more dozens of ocean tankers are available, with more to come. All of this means that more foreign oil will be used, to that extent easing our domestic supply picture. Whether or not the rest of the country is put on moderately lower gas rations, it is now virtually certain that in the East—biggest consuming market by far—the refiners and marketers will in the early future be selling considerably more gasoline to civilians.

Auto Registrations

Total number of automobiles in operation is declining at a rate of about 10 per cent a year. At the end of this year there will be 2,811,000 fewer cars in service than at end of 1942, and 4,428,000 fewer than at the end of 1941, assuming junking at the rate of the first half of this year. However, the junking rate must accelerate because of abnormal average age of present cars in service. After defeat of Germany — perhaps within a matter of months — probably gasoline rations will be eased sharply. This would immediately bring a "splurge" of driving by motorists long on a most skimpy gas diet, with further increase in the wear-out and junking rate. But new cars will not be available for some months—perhaps many months—after the war. By the time they are ready, the accumulated backlog of civilian demand may well approach 10,000,000 cars. That's one reason why bears have had scant pickings on the short side of General Motors and Chrysler.

Watch Commodities

Action of the commodity markets may forecast defeat of Germany sooner than does the performance of the stock market. Those who buy commodities for use are business men who know their way around; and speculators in commodities are, on the average, a more sophisticated breed than speculators in stocks. The broad wholesale price average has now dipped back to the lowest level since March. Despite recent strength in grains, the

(Please turn to page 496)

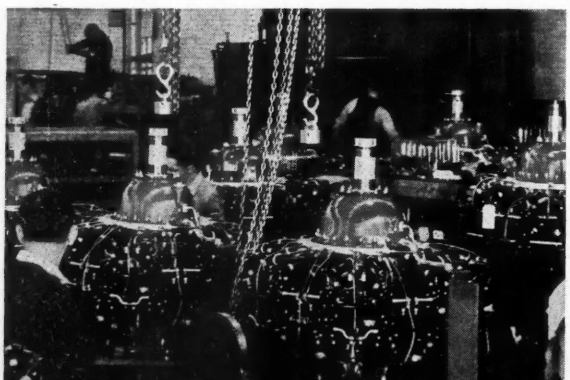
Another Look At...

THOMPSON PRODUCTS — CONTINENTAL STEEL — INSPIRATION COPPER — UNITED MERCHANTS & MANUFACTURERS — BOND STORES — GENERAL CABLE — GENERAL CIGAR — WHEELING STEEL — J. C. PENNEY — ALPHA PORTLAND CEMENT

By The Magazine of Wall Street Staff

Thompson Products

On April 17th, this stock was recommended on the strength of its post-war prospects. It was then selling around 32½ and subsequently reached the year's high of 33½. Later it narrowly receded and is presently selling around 32. This lack of progress, it appears, is due to market technical reasons rather than to any absence of intrinsic merit. The company is still regarded in better than average position as far as post-war prospects are concerned. As to the near-term outlook, earnings are still on the upgrade, reflecting the completion recently of new facilities for the manufacture of aircraft parts. At present, the company's output of the latter, in a Government-owned and leased plant, comes to about $3.5 millions monthly and is expanding rapidly. The company, by the end of the war, will be well entrenched as a maker of aircraft parts and should participate proportionately in the future of aviation, admittedly bright. Its strong position in the automotive field is well known; it should be a source of very substantial profits when the manufacture of automobiles is once more resumed. While the price currently paid for the stock is above the 1937 high of 28⅞, it still has some way to go to match the 1940 high of 38¼ and, for that matter, its equity of $36.06 per share. Primarily, nearby market progress seems, at the present juncture, to depend on general market conditions, hence as a short term proposition it lacks any particular attraction. For the long pull, however, it should be good for further appreciation.



The airplane motor department of Pratt & Whitney is a busy place these days, as shown by the above view of a floor where the motors are assembled.

Continental Steel Corp.

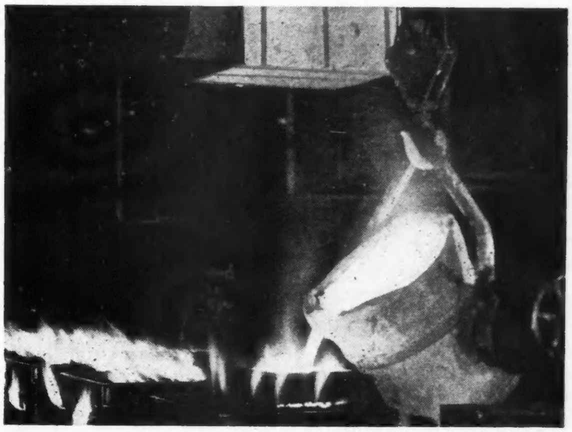
The common, recommended on October 17th, has since advanced from 18 to the high of 27¾ and is presently holding around that level. Yielding about 7½% on the basis of continuation of last year's $2 dividend, the stock despite the substantial percentage gain so far realized appears well worth holding as appreciation prospects should be by no means exhausted. Continental is one of the smaller steel makers producing mainly agricultural steels. Since unsatisfied demand for the latter is large and the company's finishing capacity cannot be fully converted to war work, relaxation of priority restrictions—reflecting recognition of the importance of agriculture in our war economy—is expected to come much sooner than for other civilian steel products. Due to restrictions thus far imposed, the company was unable to operate at capacity and 1943 net may fall somewhat below last year's of $4.06 per share despite probable rising activity later this year. In contrast with most other steel makers, the end of the war holds no threat of sharp business recession for Continental; it will mean, in fact, expanding business as pent-up demand for agricultural steels such as wire fencing, sidings, roofings, fence gates, etc. should furnish a very considerable backlog. Agricultural buying power is the best in history and still rising for lack of expenditure outlets. With the relaxation of restrictions, and their subsequent total elimination, Continental should benefit handsomely. Working capital is adequate and the company has created a substantial inventory reserve as a protection against an eventual decline in prices for scrap, its main raw material. At 27, the stock is well below the 1937 high of 35⅝. However, its good resistance in recent reactionary periods should presage further progress when market conditions are propitious. Steels, it is true, have lately displayed group strength; Continental, thanks to its specialization in agricultural steels, is in a class by itself and, under proper conditions, should be able to make headway even if other steels hesitate. Conceivably, it *could* decline with any general market reaction and hence picked up cheaper later on. Over the long run, it should work higher.

Inspiration Consolidated Copper Co.

Recommended early this year for retention on a semi-speculative basis, this stock after reaching its high point of 15⅝ has eased off to 13⅜. Because of premium price benefits to stimulate copper output, it did, and still does, deserve some merit as a war-time speculation although the outlook for further raising output is increasingly compromised by deterioration of the labor supply. Capacity production at the annual rate of some 60,000 tons of copper is indicated over the nearer term, given adequate manpower which appears less and less assured. A good portion of output is subject to premium payments of 5¢ per pound. Costs of late have followed an ascending line, however, requiring eventually further price adjustments. Due to the time lag usually involved in obtaining needed price relief, margins are bound to narrow. At present, it is expected that 1943 net will moderately exceed last year's of $1.44 per share which compares with $1.92 earned in 1941. While on the whole, the company should continue to do well under war time conditions, the peace-time outlook is pretty drab. The post-war outlook for the copper industry as a whole is viewed with great reserve, for well known reasons. Prospects of Inspiration, as a marginal earner and high-cost producer with an extremely erratic income record, are doubly doubtful; hence Inspiration failed to participate in the recent flurry of interest in coppers, shortlived as it was. Since no material improvement in earnings is indicated for the remaining war period, further appreciation prospects are slim. Coupled with the lack of post-war appeal, this affords little justification for further retention. We would advise that holders switch into equities holding better peace-time potentials.

United Merchants & Manufacturers

This stock has done fairly well since it was recommended to our readers last October. Then it sold around 16 and since has reached a recovery high of 27. It now sells around 25. Outlook for the company continues good. Operations of both the cotton and rayon divisions will remain at virtual capacity for some time to come to supply the heavy demand for military and civilian needs. Although higher cotton prices and wage costs may narrow margins, operating profits should continue substantial. Tax uncertainties, contingency provisions and the results of renegotiation preclude an accurate estimate of earnings in the current fiscal year but no great change is expected from the $6.14 realized during the preceding period. Earning power during the war period thus appears well stabilized somewhat below the latter level. On the other hand, the continued growth in the use of rayon fabrics, accelerated by war research promises further long-term expansion in sales; net returns, of course, will vary with the sharp cyclical changes in textile operations generally. Over the nearer term, dividend payments are expected to continue conservative because of bank loans and plant rehabilitation requirements. On the basis of last year's disbursement of fifty cents, the stock at current prices yields about 4%, offering little attraction from the standpoint of income. But in view of post-war potentials, once price ceilings have been done away with, the common is not without further appreciation prospects. Their expression in the form of dividends appears to be conditioned on the repayment of the bank loans outstanding in the amount of $5.68 millions at the end of 1942.



One of the huge caldrons at the Studebaker foundry where tons of molten iron are continually being poured into moulds for conversion into steel.

These are being steadily pared down, a process which should be reflected in the market price as time goes on, foreshadowing gradual but rather steady further appreciation. This may not appeal to holders who already have a sizable paper profit; they may prefer switching into equities with more concretely defined appreciation prospects. But those who decide for retention, should not remain without reward once the concern's financial position is further strengthened, a process which is well on its way and apparently a prime consideration of the company's management.

Bond Stores Inc.

Last February, the common was recommended for purchase at around 18½. It has since risen to 29 and is holding well around this recovery high, yielding about 7% on the basis of last year's dividend of $2. Despite the company's rapid expansion in recent years, growth prospects are still regarded good. Further extension of the chain outlets indicate an ascending earnings trend in post-war years. The company last October started women's departments in a number of stores; their success has led to their introduction in many additional outlets, producing considerable added business. The company is not expected to be hampered by fabric shortages to any great extent. Inventories appear adequate and though replacements are not abundant, they are being obtained in satisfactory volume. Business has held up extremely well, partly due to precautionary buying in fear of possible rationing of clothes, a possibility which is being deprecated of late. 1943

earnings are estimated at about $3 per share, as against $3.96 in 1942, with the decline primarily due to ceiling prices and higher costs and taxes. Assuming that contingency provisions remain at previous figures, war time earnings should stabilize around the expected 1943 level. The company's finances are progressively improving. Funded debt now consists of $2.4 millions Serial Notes, maturing annually through 1948 at the rate of $300,000.

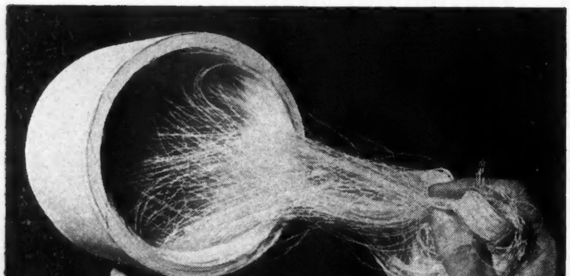
Long-term prospects warrant the expectation of further earnings gains after the war and in spite of the excellent paper profit so far realized, holders might hold on for further appreciation as well as for income. In view of rising consumer purchasing power, the company should do well after the war when discontinuance of ceiling prices permits far more favorable margins than at present.

General Cable Corp.

Those who followed our recommendation last October and acquired a position in General Cable at the then prevailing price of 3, have now a paper profit of over 100%, at its present market price of 6¾. The stock rose as high as 8¼, an appreciation of some 160%. Despite improved earnings prospects, we are now inclined to advise profit taking. The stock in recent weeks has not had robust support, probably due to the fact that early recapitalization now appears problematical because of the need of financing increased production which is being planned. Hence expected benefits from recapitalization procedure are further postponed. While finances have markedly improved and the business outlook is viewed favorably, the stock now lacks the former main element of attraction in a highly speculative situation.

General Cigar Co.

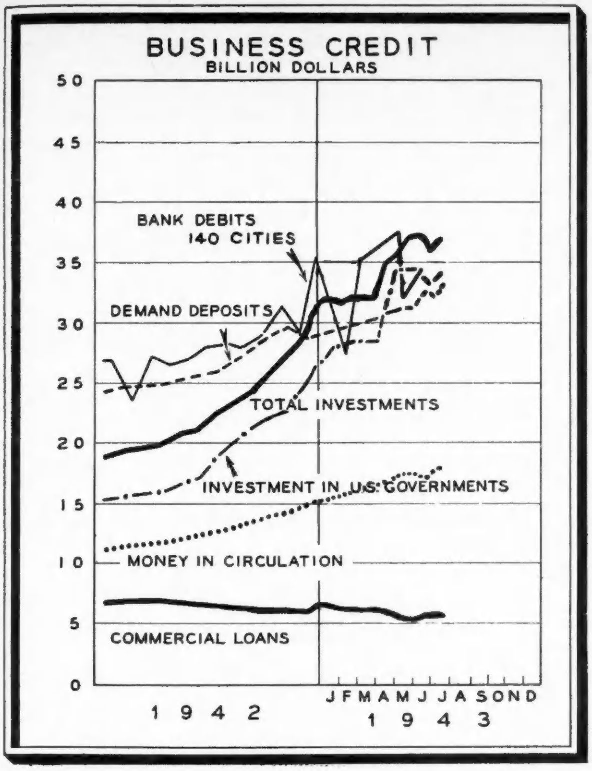
In our March 6th issue, we pointed out the merits of this stock, then selling at around 25. It has since reached a recovery high of 32½ and is currently quoted around 29¼. At the latter price, and on basis of last year's dividend disbursements of $2.25, yield is nearly 8% which in itself is an attractive feature in these days of high price-earnings ratios and contracting returns. On this premise, we believe that further retention is good advice. Apart from the income feature, the stock is not without appreciation possibilities though as a rule, it is handicapped by a relatively thin market. This year's earnings should hold around $2.75 per share and the regular quarterly dividend of 25 cents should again be supplemented by a sizable year-end extra. High consumer buying power indicates a good level of demand not only for the company's popular cigar brands but better volume for the higher-priced, more profitable brands. While labor and materials costs have risen, price increases have maintained margins fairly well. Over the longer term, odds favor a further gradual rise in sales volume though post-war competition is likely to become keener. Finances are eminently satisfactory, permitting occasional dividends in excess of earnings in the past. The idea that the cigar industry is decadent, is not borne out by the record. Actually, it is better than holding its own and for the present, price ceilings are more favorable than in the cigarette industry. With net working capital of over $35 per share, the stock looks conservatively priced at current levels and as a yield stock has a good deal to recommend it.



At the mill of the American Viscose Corp. cakes of yarn, when leaving the spinning machines, are wound into cones before being sent to the knitting or weaving departments.

Wheeling Steel

Back in October, we selected this stock, then selling around 16, as one with moderate speculative appeal and fair longer term appreciation prospects. The equity is now selling near its subsequent recovery high of 24½, yielding 6% on basis of the 1942 dividend of $1.50. Steels in recent weeks have shown group strength and Wheeling Steel was no exception, despite lower estimates of 1943 earnings. Leaving aside the market technical implications of this showing, the question arises whether the stock is likely to work higher in the face of less promising near-term prospects, that is, will it continue to move with the steel group which, traditionally a late mover, has recently been perking up after a long period of neglect. Since a conclusive answer is obviously impossible, holders may do well to content themselves with existing paper profits and thereby avoid missing whatever top may be made by steels. Nonetheless, over the longer term, appreciation possibilities should exist. Further war-time benefits to Wheeling's sales are probably mainly indirect, with taxes and costs rising disproportionately to sales. But after the war the company's close tie with consumer goods industries should again support better than average operations. Past earnings were rather volatile, reflecting heavy fixed charges and overhead, a factor which will continue to affect results. The company, however, has shown excellent earning power in good years; it should do so again with corresponding enhancement of the value of its stock which in 1937 sold as high as 65 and reached a top of 38⅞ in 1939. While it is a clearly speculative situation, current dividend yield offers at least some substance pending development of a more solid basis for future market progress. (*Please turn to page* 493)



CONCLUSIONS

MONEY AND CREDIT—Federal tax collections in 1942-43 fiscal year totaled $22.3 billion, including $5.7 individual income taxes and $9.6 billion corporate taxes.

TRADE—June chain store sales were 7% above last year. Department store sales in four weeks ended July 17 were up 19% against only 14% for year to date.

INDUSTRY—Low inventories, munitions change-overs and slower stock-piling by Armed Forces check rise in overall business activity.

COMMODITIES — Grains advance sharply. Cotton and livestock prices sag. Bumper potato crop expected this autumn.

The Business Analyst

Hesitation in **business activity** during the past two months, depicted in the accompanying graph, is not attributable solely to coal miners' strikes and complacency on the part of civilians. WPB estimates, for example, that total **construction** for the first six months amounted to only $4.6 billion, or 22% below the like period last year. **Engineering construction awards** this year, up to July 22, were off 65%, with resulting declines in **lumber** production and **Portland cement** shipments.

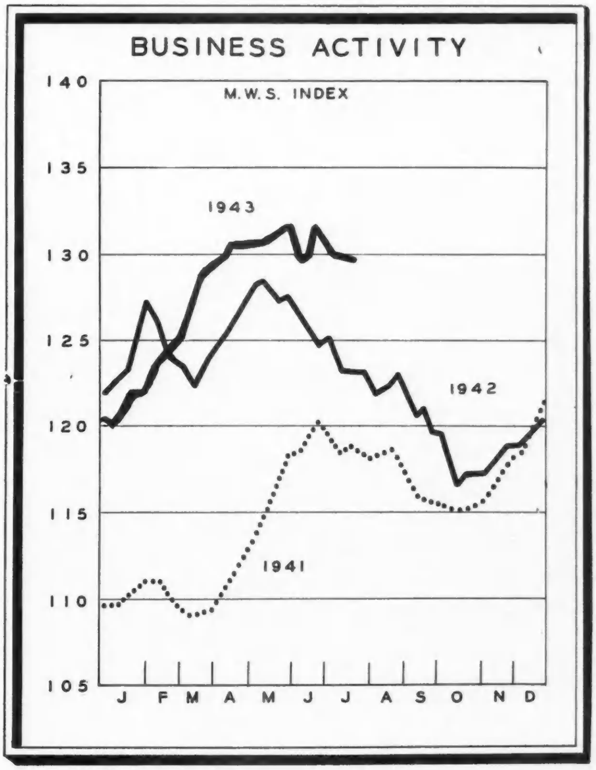
* * *

Other factors contributing to hesitation in business activity are the growing shortages of raw material and merchandise, reflected in the sharp drop in **business inventories** mentioned in our last issue; revisions in munitions requirements, which have led, temporarily at least to a decline in **manufacturers' new orders and shipments;** and some slowing down in **stock-piling by the Army and Navy.** As to the latter, Judge Byrnes goes so far as to hint that the Armed Forces may have over-accumulated certain lines of goods which might better be released for civilian use.

* * *

To help check the decline in much needed supplies of **non-ferrous metals,** the Army is

(Please turn to following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	July 23	1.54	1.63	1.04	0.43
Cumulative from Mid-1940	July 23	115.0	113.4	38.03	14.3
FEDERAL GROSS DEBT—$b	July 23	140.0	140.4	76.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	July 21	33.4	32.9	26.3	24.3
Currency in Circulation	July 21	17.7	17.7	12.5	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	July 21	5.07	5.32	3.77	3.92
100 Other Cities—$b	July 21	6.94	7.08	5.77	5.57
INCOME PAYMENTS—$b (cd)	May	11.13	11.22	8.80	8.11
Salaries & Wages (cd)	May	8.17	8.05	6.39	5.56
Interest & Dividends (cd)	May	0.49	0.75	0.48	0.55
Farm Marketing Income (ag)	May	1.39	1.32	0.93	1.21
Includ'g Govt. Payments (ag)	May	1.43	1.39	1.03	1.28
CIVILIAN EMPLOYMENT (cb) m	June	53.4	52.1	53.3	50.2
Agricultural Employment	June	11.9	10.8	11.5	9.0
Employees, Manufacturing	May	15.9	16.0	14.1	13.6
Employees, Government	May	6.0	5.9	5.0	4.5
UNEMPLOYMENT (cb) m	June	1.2	1.2	2.8	3.9
FACTORY EMPLOYMENT (lb4)	May	167	167	148	141
Durable Goods	May	226	225	184	168
Non-Durable Goods	May	121	122	120	120
FACTORY PAYROLLS (lb4)	May	313	310	229	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	May	45.2	45.0	42.9	40.3
Hourly Wage (cents)	May	95.3	94.4	83.5	78.1
Weekly Wage ($)	May	43.08	42.48	35.82	32.79
PRICES—Wholesale (lb2)	July 17	102.9	103.0	98.3	92.2
Retail (cdlb)	May	134.9	133.8	123.9	116.1
COST OF LIVING (lb3)	May	125.1	124.1	116.0	110.2
Food	May	143.0	140.6	121.6	113.1
Clothing	May	127.8	127.8	126.2	113.8
Rent	May	108.0	108.0	109.9	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	May	5.11	5.18	4.57	4.57
Durable Goods	May	0.89	0.88	0.85	1.07
Non-Durable Goods	May	4.22	4.30	3.71	3.47
Chain Store Sales (ca)	June	178	171	171	151
Dept.. Store Sales (rb) (1)	June	129	125	104	116
Dept. Store Stocks (rb2)	May	90	87	126	95
COMMERCIAL FAILURES (db)	June	265	281	804	842
MANUFACTURERS'					
New Orders (cd2)—Total	May	267	287	270	212
Durable Goods	May	392	409	432	265
Non-Durable Goods	May	187	197	167	178
Shipments (cd3)—Total	May	245	253	203	183
Durable Goods	May	335	338	254	220
Non-Durable Goods	May	175	186	164	155
Inventories, end Month (cd3)	May	176	175	170	153
Durable Goods	May	213	214	190	170
Non-Durable Goods	May	143	153	142	137

PRESENT POSITION AND OUTLOOK

(Continued from page 481)
releasing 4,500 men to go back to work in copper, zinc and molybdenum mines.

* * *

Shipbuilding and retail sales, on the other hand, are holding up phenomenally. **Merchant ship construction** in the first six months totaled 879 vessels, aggregating 8,819,000 deadweight tons. Deliveries in the first half year topped all of 1942 by 18% in number and 10% in tonnage.

* * *

Despite the grousing of merchants, **chain store sales** in June were 7% ahead of last year, compared with a gain of only 5.3% for six months; while **department store sales** in the four weeks ended July 17 were 19% above the like period in 1942, against a rise of only 14% for the year to date.

* * *

Second quarter earnings reported by **New York City banks** showed sizeable gains over the first three months of 1943 and the June quarter of 1942. Though **excess reserves** of New York City banks have fallen technically below legal requirements on several occasions this year, operating reserves, including secondary reserves in the form of Treasury bills, have averaged around $2 billion this year—approximately half of the 1940 peak. Treasury bills are virtually the equivalent of cash except that they bring in some earnings return.

* * *

Utility earnings in the first quarter were about 5% ahead of last year. Curbs on new construction are releasing cash for faster debt retirement. **Railroad earnings** in the first five months sufficed to cover rentals and fixed charges for the entire year. Thanks largely to the standees, passenger business is now profitable for the first time in 16 years. Including military demand, **oil industry** sales are about even with a year ago, with profits well maintained.

* * *

Commerce Department reports that **cash dividends** declared in June were 5% more liberal than a year ago, leaving a decline of only 1% for the first half. Largest percentage increase, 65%, was reported by the transportation equipment industry. Railroad, finance and communications companies also declared larger dividends in June than a year ago. Mining; trade; heat, light and power; paper and printing; automobile; iron and steel dividends were lower.

* * *

Dividends paid during the first half by stocks listed on the New York Stock Exchange were 3/10 of 1% larger than in the like period last year. Utility dividends were off 4.5% and steel and iron 5.9%; but aviation industry dividends

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	July 17	129.1	129.2	122.8	118.2
(M. W. S.)—I—np	July 17	154.6	154.7	145.8	139.5
INDUSTRIAL PRODUCTION (rb3)	May	203	203	174	167
Durable Goods, Mfr.	May	300	300	239	215
Non-Durable Goods, Mfr.	May	148	147	138	141
STEEL INGOT PRODUCTION (st)m	June	7.03	7.65	7.02	6.96
Cumulative from Jan. 1	June	43.87	36.84	42.54	55.69
ELEC. POWER OUTPUT (K. W. H.)m	July 17	4,184	3,919	3,565	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	July 22	49	104	148	93.5
Cumulative from Jan. 1	July 22	2,021	1,972	5,839	5,692
PETROLEUM—bbls. m					
Crude Output Daily	July 17	4.10	4.09	3.71	4.11
Gasoline Stocks	July 17	76.56	72.73	82.91	87.84
Fuel Oil Stocks	July 17	67.02	67.14	77.02	94.13
Heating Oil Stocks	July 17	35.04	35.12	35.06	54.85
CARLOADINGS—t	July 17	877	809	857	833
Grain	July 17	65	55	52	43
Coal	July 17	176	165	164-	150
Manufacturing & Miscellaneous	July 17	378	349	386	379
Mdse., L. C. L.	July 17	98	90	87	156
Ore	July 17	90	89	87	36
GENERAL					
Bituminous Coal Prod. (st)m	July 17	11.86	11.17	11.14	10.80
Lumber Production (bd. ft.)m	July 17	654	467	712	632
Paperboard, New Orders (st) t	July 17	113	80	92	132
Cigarette Production—b	May	18.48	19.94	18.46	17.14
Portland Cement Shipments (bbls.) m	May	12.08	12.75	16.32	13.72

PRESENT POSITION AND OUTLOOK

were up 98%, rubber 70%, rails, 31% and amusements 27%.

* * *

Federal **tax collections** in the fiscal year ended June 30 totaled $22.3 billion, against only $13 billion in the 1941-2 fiscal year. Individual income tax collections in the 1943 fiscal year were $5.7 billion compared with $3.2 billion in the previous year. Corporate tax yield was $9.6 billion, against $4.6 billion.

* * *

The goal of the third **war loan drive**, starting September 9, will be $15 billion to be obtained entirely from non-banking sources through sales of the same type of securities offered in the second war loan of April which raised $11.3 billion through non-banking subscribers. Upon conclusion of this drive other securities will be offered for banking subscription. There may be a fourth public offering in December; but Mr. Morgenthau says this depends upon how fast the Government spends money and how much oversubscription there is to the September offering.

* * *

Commerce Department estimates that **liquid assets** of individuals and business concerns may increase as much this year as the combined gain of $50 billion for 1941 and 1942.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dept., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. Index (1935-9—100) using Labor Bureau & other data. db—Dun & Bradstreet's. en—Engineering News-Record. I—Seasonally Adjusted Index. 1923-5—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—End of Mo., Federal Reserve Board, seasonally adjusted index, 1923-5—100. rb3—Federal Reserve Board, seasonally adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

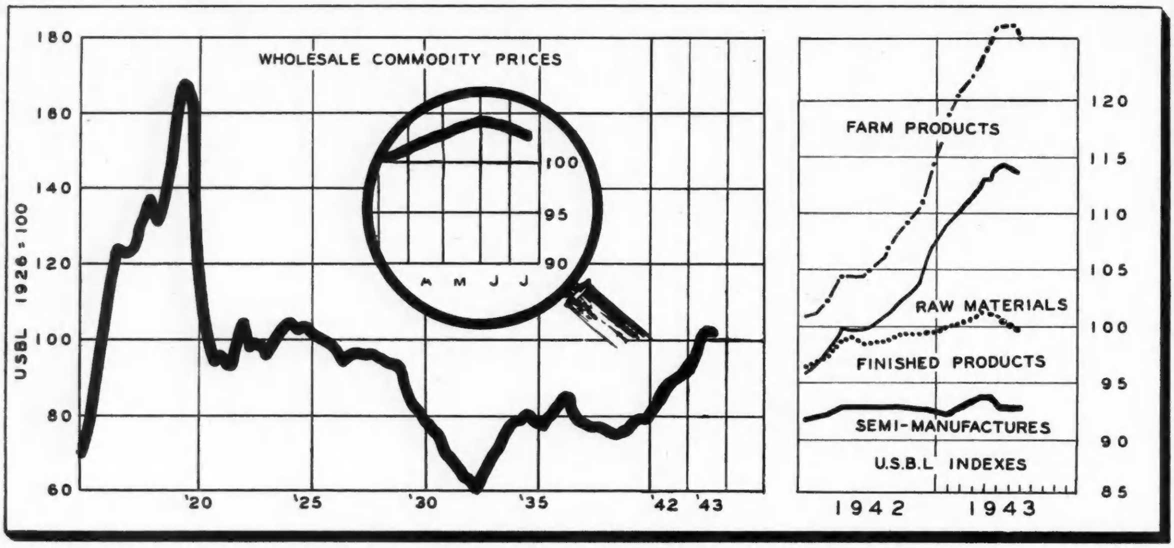
No. of Issues (1925 Close—100)	1943 Indexes High	Low	July 17	July 24
273 COMBINED AVERAGE	89.9	54.5	89.7	88.7
3 Agricultural Implements	156.5	105.2	153.5	146.9
9 Aircraft (1927 Cl.—100)	179.2	131.8	162.3	162.0
5 Air Lines (1934 Cl.—100)	560.3	363.1	544.3	528.4
5 Amusement	78.4	40.2	78.4N	76.8
12 Automobile Accessories	142.1	83.0	138.5	135.7
13 Automobiles	21.0	9.7	30.3	19.9
3 Baking (1926 Cl.—100)	15.0	8.5	14.4	14.6
3 Business Machines	197.1	129.4	194.7	188.8
2 Bus Lines (1926 Cl.—100)	96.6	54.9	88.0	89.7
5 Chemicals	194.7	153.5	194.7F	190.4
13 Construction	38.0	23.3	37.3	36.4
5 Containers	240.0	177.1	235.9	231.3
8 Copper & Brass	82.5	63.6	79.0	78.0
2 Dairy Products	40.5	29.7	39.8	40.5F
6 Department Stores	29.9	15.4	29.8	29.9F
5 Drugs & Toilet Articles	89.6	50.9	89.6F	89.6
2 Finance Companies	237.3	152.6	228.1	232.0
6 Food Brands	131.9	85.5	129.3	127.8
2 Food Stores	47.8	37.7	47.2	47.8C
4 Furniture	60.6	35.0	58.6	57.5
3 Gold Mining	912.6	610.3	896.8	875.3
6 Investment Trusts	39.1	22.7	38.4	37.9

(Nov. 14, 1936, Cl.—100)	High	Low	July 17	July 24
100 HIGH PRICED STOCKS	68.01	52.87	68.01C	67.75
100 LOW PRICED STOCKS	88.00	43.61	86.16	84.91
3 Liquor (1932 Cl.—100)	297.1	197.1	296.3	297.1F
8 Machinery	111.6	82.6	110.9	110.5
2 Mail Order	88.3	61.8	87.4	88.3C
3 Meat Packing	58.1	34.9	56.6	58.1C
10 Metals, non-Ferrous	155.7	106.8	148.1	146.0
3 Paper	13.5	9.0	13.1	13.3
21 Petroleum	141.4	86.9	141.4F	141.4
18 Public Utilities	58.1	23.2	56.4	55.9
3 Radio (1927 Cl.—100)	26.1	12.1	25.6	25.4
7 Railroad Equipment	57.4	32.1	52.6	51.8
17 Railroads	18.6	9.8	17.5	17.5
2 Shipbuilding	106.1	83.4	87.2	88.7
3 Soft Drinks	337.1	197.8	322.6	337.1F
12 Steel & Iron	79.3	57.6	79.3	78.6
2 Sugar	47.2	32.2	44.7	44.1
2 Sulphur	196.2	180.2	195.0	193.8
3 Telephone & Telegraph	111.5	67.0	110.4	109.0
3 Textiles	56.7	33.7	56.1	56.7F
3 Tires & Rubber	27.7	16.5	27.3	27.7F
4 Tobacco	67.7	52.2	67.6	65.8
2 Variety Stores	233.8	182.4	228.8	233.8C
20 Unclas'fied (1942 Cl.—100)	190.0	100.0	185.2	175.4

New HIGH since: C—1940; F—1937; N—1931.

Trend of Commodities

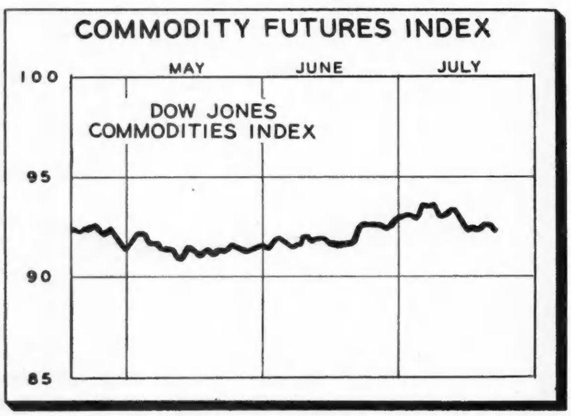
Prices of raw cotton have been rather soft since our last issue, under prospects of a good crop and a somewhat smaller demand from the Army and our civilian population; but wheat and oats advanced sharply as substitutes for corn to feed our huge population of poultry and livestock. There is a superabundance of wheat in the U. S. and Canada; but cargo space is still inadequate despite the greatly improved shipping situation, to import the grain in sufficient quantity from our northern neighbor. Cattle are coming to market in somewhat greater numbers; though not fast enough to promise much relief from the growing shortage of hides and leather. Texans are planting grain sorghums, which grow like weeds—rain or shine—to head off a stampede of beef cattle to market when the ranges dry up this autumn. Hog prices are to be ceiled early in August at $14.75 per 100 pounds—$1 above current market, but $1.35 below the peak touched last spring. There is some talk of removing the Government's support price of $13.75 after September 30. It will be recalled that hogs have advanced from a low of about $4.90 in the spring of 1940 to the present support price of $13.75. Maine's potato growers have asked the Food Administration to support prices next autumn in view of a prospective record crop from the great increase in acreage requested.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

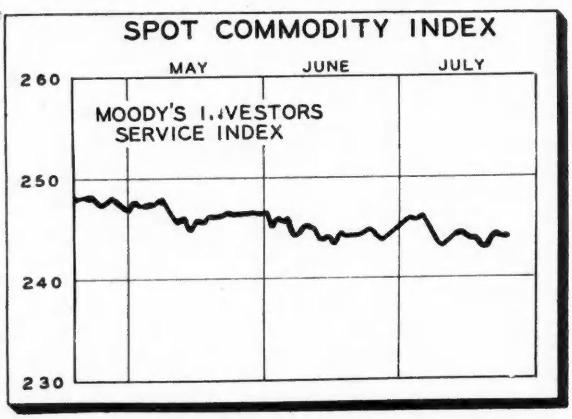
Spot Market Prices—August, 1939, equals 100

	Date July 24	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	176.4	176.1	176.4	176.8	173.9	166.7	156.9
11 Import Commodities	167.7	167.7	167.7	167.3	164.5	163.1	157.5
17 Domestic Commodities	182.2	181.7	182.3	182.4	180.3	169.1	156.6
7 Domestic Agricultural	209.4	209.9	208.9	208.5	200.4	180.8	163.9
12 Foodstuffs	199.7	199.7	200.9	201.2	198.4	184.4	169.2
16 Raw Industrials	160.5	160.1	159.9	159.5	157.4	154.3	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	93.66	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03



15 Commodities, December 31, 1931, equal 100

Copyright by Moody's Investor Service

	1943	1942	1941	1940	1939	1938	1937
High	249.8	239.2	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6

Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.**

Special rates upon request for those requiring additional service.

Northwestern Telegraph Company

Kindly advise me regarding Northwestern Telegraph as an investment. I understand the dividends are guaranteed by the Western Union Telegraph Company. The dividend is rather high, which makes the stock appear unsafe to me.—A. P., Brooklyn, New York.

The Northwestern Telegraph Company was leased to the Western Union Telegraph Company for 99 years from July 1, 1881, at a rental guaranteeing interest on bonds and the $3.00 dividend per share on this company's stock of $50 par value, stock certificates being so stamped.

This stock is listed on the New York Stock Exchange and is currently quoted: bid 37½; asked 39. Based on a market price of 37½, the yield is just 8 per cent. The reason for it selling on such a liberal yield basis is because under present decisions of the Court, this company is liable for United States income taxes. The lessee, the Western Union Telegraph Company, is not obligated by the lease to pay such taxes and as the lease provides for all rent to be paid direct to the stockholders, the company has no funds. Final settlement of its increasing tax liability, or any indebtedness substituted therefor, may have to await the termination of the lease. In view of the foregoing, the stock cannot be classified as an investment.

Mexican Bonds

I respectfully request that you kindly inform me at your earliest convenience; first, What interest has the Mexican Government declared on its defaulted bonds? Second, What am I expected to do so that I may obtain my share of said interest? I have a copy of a proposed adjustment of Mexican Government indebtedness with its American bondholders. That adjustment was planned by the International Committee of Bankers (representing American Owners of Mexican securities) and Edward Saurez, Minister of Mexican Finance.—J. P. O'S., Guthrie Center, Iowa.

The United States of Mexico has resumed payment on its public debt. The International Committee of Bankers on Mexico announces that first payment since 1928 on the external debt of Mexico held in the United States was made on July 14, 1943. The payment was made out of a fund of 10,000,000 pesos, about $2,050,000 at the present rate of exchange.

Under the agreement ratified December 29, 1942, by the Mexican Congress, interest payment at varying rates will be made on the external debt of Mexico, excluding the railway issues with the exception of the Tehuantepec National Railway 5% and 4% gold loans, due on June 30, 1953.

The Committee also announced that the time for the holders of Mexican bonds to register their securities had been extended for sixty days from June 30th. This registration is to determine the nationality of ownership, and all bonds not registered, according to the notice, will be presumed to be under the jurisdiction of a country hostile to Mexico. In accordance therewith, the New York Stock Exchange has ruled that date upon which such bonds shall not be a delivery unless accompanied by a certificate of registration be extended to August 16th.

In connection with the above, we would advise that the Pan American Trust Company, 70 Wall Street, New York City, are fiscal agents of the Mexican Government under the agreement dated November 5, 1942.

Bridgeport Brass

I am the owner of 800 shares of Bridgeport Brass common at an average cost of 11½. I have owned this stock for several years and have received something over $2000.00 in dividends on same. I would appreciate your opinion on this stock especially as to its peace prospects, the company has made extensive expansion in the last five years but same does not reflect in its price movement.—R. J. S., Newton, N. C.

Bridgeport Brass Company earned $1.48 on its common stock in 1942 as compared with $2.03 in 1941. In the pre-war years of 1936 to 1939, inclusive, the highest this company earned was $1.46 and the lowest was a deficit of 27 cents per share. The company has paid dividends in the last three years and in 1942 distributed $1.00. In the first quarter of this year, earnings declined

(*Please turn to page 496*)

Appraising Prospects for Machinery, Rail and Office Equipments

(*Continued from page* 471)

Pullmans and Diesel switching locomotives, indicate a demand far greater than that for mere replacement. Passenger speeds will have to be increased if transportation is to compete with airlines for passengers and express packages. The unwonted wear and tear of wartime will have to be made good.

This is the usual case for the rail equipment stocks. It is often argued that such profits cannot compare with the uprush of profits due to the amazing expansion of these companies in gross income during the war. But, actually, they have conserved more of their ordinary rail business than has been believed. There are estimates of as high as 75,000 freight cars per annum to be completed in the 1943-44 period, and that the production of locomotives may reach 2,000—many of them intended for aiding our military movements abroad. There are responsible experts who do not hestiate to predict an annual locomotive capacity of over 2,500 before the end of 1944. If these figures are realized, then the rail equipment industry should not be treated as one that enjoyed a poor past and a hectic present and a slightly rosy future, but as one which has raised its ordinary production to the very highest levels, so that it will be prepared to take care of the rails as soon as peace is declared. The fancied reconversion costs, the thought of which has long hurt their market position, may prove to have been already largely effected and to be over the dam. The net result has been that actual operating profits of the equipment companies (on railroad work alone) are excellent but the proportion of low-profit war work is such that it pulls down the overall profit rate. The companies are also compelled to follow an extremely lavish reserve policy, as the renegotiation situation has shown them (as was seen in the case of American Car and Foundry) that ultimate realized profits on government business are painfully below indicated profits during the life of the contract.

The rail equipment companies, as a group, were among the most heavily indebted in industry. They were also the most overcapitalized. Part of that excess arose by nature of the business which requires a very large capital investment in proportion to annual turnover. But a great deal also came out of eleven lean years, in which is was impossible to improve the capital structure. During the war years debt reduction has been striking, senior capital arrears have been reduced and the common stocks have moved upward notably in their ability to profit by good earnings.

There has been some speculation about the possibilities for the rail equipment companies in the Orient and in South America. Whatever these possibilities, they are not and should not be market factors. The companies are in no position to grant longterm accommodation, the banks would not hazard it, there is little possibility of public response to such long term undertakings in private financing and governmental policy will be shaped by political considerations that have not as yet emerged. But, wherever foreign demand is predictable, as in Mexico, export prospects are looking up. Our rail equipment companies would long ago have had certain important foreign markets, except for political exclusion, and the shift towards a more important American influence abroad is an intangible factor in their favor.

Certain sections of the business are more favored: for example, air brake installations are far from adequate and after the war this type of equipment should greatly expand whereas signalling will not be so favored, because the exigencies of war have required that these be maintained at a very high level. Companies dependent on leases, and competing with pipe lines, such as tank cars may do less well, but those which deal in refrigerator cars may be at the beginning of expansion.

The rail equipment stocks were laggards in the market. They became favorites during the late spring, when most other groups had been given a whirl by eager optimists. As such they have not scored spectacular advances and are far indeed removed from their best 1937 showing, despite the fact that more than any other industrial group, their basic longterm position has altered for the better. Thus companies like New York Air Brake, despite a temporary earnings recession, are still inherently good investments.

The Battle for Foreign Trade Has Begun

(*Continued from page* 453)

of this country abroad may be mobilized to be used as a counterweight in bargaining to any sudden demands for excessive payments by this country. True, that means a blocked dollar, but it is doubtful whether we can maintain a free dollar as against blocked sterling and regimented reconstruction moneys throughout the world. We could protect ourselves by developing our export trade to much higher proportions than before. Hence, in the increase of our exports is to found the longterm defense of the dollar.

What proportion of our economy is dependent on foreign trade? In money terms, not a large proportion. In 1929 foreign trade was about 5.2 billions for exports and 4.3 billions for imports. That is, in our best prewar year, out of our production of nearly 90 billions, a mere 6% was exported, and only 5% of our consumption was imported. For Britain in that year, her imports were 5.4 billions, or about a fifth of her consumption and her exports 3.5 billion, about 15% of her production. The difference of 1.9 billions was covered by income from abroad of which nearly 1.1 billions came from interest and dividends on investments, and 800 million in payments for shipping,

insurance, gold, etc. To make up the loss of perhaps 1.3 billions per annum, Britain will have to produce more and consume much less. That means an intensification of exports.

We, on the other hand, need not consume less in that sense but we are none the less dependent on foreign trade for production. It does not follow that because we are not so desperately in need of exports that we are not vitally interested. The fact that Britain is straining every nerve to keep up foreign trade connections and is not even disregarding this type of production in her factories, even in the present dark days, shows that with a declining creditor position we too cannot afford to be so indifferent to that trade.

When we were a debtor country, before 1914, we required farm exports to live: when we were a creditor country from 1919 to 1929, we found that the profit margin of our corporations was largely dependent on foreign trade; during the depression and reflation we were sustained by a great inflow of foreign funds that acted similarly to the export trade in their economic function and now that our liquid liabilities exceed our liquid assets abroad, we shall very much require exports, first to satisfy these foreign demands and secondly, to take care of the largest increase of capital capacity in our history. Part of this capacity can serve consumer's durable goods, part be used to replace wear and tear and to retool, but a very large section of industry must export if it is to make profitable use of its capital. Certainly in the office equipment industry (to take an extreme case) the end of export trade and war business would reduce their profits to skeletal proportions, if any.

American direct foreign investments abroad yielded 450 millions in 1940: foreign bonds paid about 100 millions (dollar obligations). Our total yield from abroad is merely 600 millions, and much of that is fluctuating. The balance of trade at the moment is irrelevant, since our exports are swelled by billions in war materials and lease-lend, and therefore exports are not a valid economic counterpart to imports, which are now running at about 3 billion per annum.

Prior to the war our exports of aircraft and parts were 117 millions, out of a total of 225 millions, automobile parts and accessories 100 millions; chemical products nearly 200 millions (a recent field for American enterprise). Chemical exports in 1939 exceeded net income of the group of 19 leading chemical companies. Drugs and cosmetics also came to 32 millions, or 14 millions more than the profits of leading companies. Even with electrical equipment, in which Germany and Britain have tried their utmost, our peace exports were 100 millions average, or equal to the net income of the leading companies in the group. Canned foods ex-

ported exceeded 110 millions in peace. The farm equipment stocks are, of course, very heavy exporters and their revival, in the long term, is dependent largely on that external business. The export of 300 millions in machinery generally is really decisive, because orders lead to permanent reorders, once industry has the habit of their use. About 22% of gross income is from exports, which is seven times the net earnings of the leading companies. For our meat industry, exports, though less important than before, are especially significant in dull periods of domestic demand. Copper exports (fabricated) were about 75 millions pre-war: without fabricated metals exports the industry would have operated at a consistent loss. As to our motion picture industry, 35% of the pre-war producing income came from abroad. The foreign investments and income of our oil companies (even the largest) was crucial for their profit showing. Rail equipments have often been saved by exports from extremely bad showings. Shipping is, of course, a direct function of the export trade. Lard is largely dependent on foreign business. Steel and iron exports are between 5% and 7% in normal times.

It is clear that the percentage of exports cannot be considered as having contributed to profits merely in proportion to their ratio to gross sales. Domestic sales absorb the overhead charges and export sales are more nearly met. Hence in any industry in which export sales come close to net income for the leading companies in that field, it is evident that without that aid the groups would scarcely be profitable. The industries for which it seems that their very profitability would be in question if not for the export trade, employ about three millions industrial workers. Dazzled as we are by war figures of factory employment this may not seem considerable, but without that artificial stimulant, the addition of several million unemployed is nothing to face with comfort.

Not only then is export trade a needed bulwark for the dollar, in a time of mass capital movements, not only is it a major factor in arresting unemployment, not only does it produce a large part of the net manufacturing income that makes American corporations still the most profitable known, not only does it still provide considerable employment for our raw materials producers, but the intensive trade drive of our State department, the Rockefeller missions to Latin America, the interest displayed in our machines and transport abroad where our army is engaged, show that we cannot wait. It is just in those fields of machinery and allied products that British competition must be keenest.

Armed with years of experience in eliminating German competition by means of the blacklist, the British have some ready-made connections in work. Hence the offer of the Keynes plan and the American and Canadian counter-offers of the White and Illsley plans to integrate international currency to prevent a cutthroat use of export competition. For we are allies, even if commercial competitors and we are sincere allies. The welfare of the British people is our surest and cheapest guarantee against a European collapse and social disorder that would cost us more than even the loss of our export trade. What is necessary is the pooling and direction of credits by both great states so as to raise the consumption level and new industrialization of the world generally, so that there may be room for both of us. Britain must reduce her protectionism and we must limit ours by trade treaties. The shrinkage of world investment and trade in the Thirties: the diminution of debtor states and the near elimination of creditor countries has compartmentalized the world. At least a hundred of our industrial stocks involved in a revival of exports, once the war hypodermic is gone, investor interest should not neglect this foundation for profits.

War and Post-War Potentials

(Continued from page 466)

pear to have above average appeal, from a longer range standpoint.

Despite past fairly sharp advances of leading rubber equities, the majority still hold considerable attraction, based on post-war prospects. U. S. Rubbber, Firestone, General and Goodyear offer perhaps the greatest speculative appeal with Lee Rubber a promising runner-up. Goodrich, in pre-war years handicapped by a relatively high labor ratio, has increasingly managed to overcome this handicap; well-established and important outlets and growing diversification augur well for an excellent post-war showing. Should synthetic rubber become the future raw material of the industry, an element of stability, hitherto lacking, would enter the tire situation which should vastly improve the long-term status of all companies by doing away with the threat of sporadic heavy inventory losses due to fluctuations in crude rubber prices. It need hardly be said that the rubber stocks are not immune to possible considerable reactions from an intermediate viewpoint.

Drastic Decline in Private Debt

(Continued from page 450)

tion: if it seeks to stimulate it as much as it says it will, we shall see a notable revival of this type of finance by 1946. But the prospects for financing companies like Commercial Investment Trust, apart from the delay in the reinstitution of large installment loans, is also clouded by the entry of commercial banks into this lucrative field. That in turn will cheapen installment credit, and may thus aid in restoring its volume. Nevertheless, the orgy of installment buying that arose in the later Twenties coincided with

a volume of popular savings not a third of that prevailing today. A more thrifty population, on the average, can now be counted upon. Such a population is characteristic generally of a more mature population and economy.

Common stocks were not the most favored form of railroad and public utility financing in the early decades of their development. Capital is timid and after the first advances of the more daring venturers (once the foundations were laid) rails and utilities were developed by the companies giving guarantees for repayment of funds. The mortgage bond was the natural vehicle for secondary development and as the rails and utilities grew to proportions undreamed of by their initiators, the habit of obtaining new funds mostly by way of bonds, became universal. The control of companies being vested in common stock, the larger the debt capital preceding that stock, the more property was controlled by a comparatively small and easily manipulated security. The higher the ratio of debt to equity, the more pronounced the effect of either increase or reduction of net income on the earning power attributable to the marginal common stock.

For decades there was, therefore, almost no incentive to increase the ratio of common stock to debt. Now that the regulation of public utilities and railroads is, if anything, excessive, the older motives that led to the multiplication of debt are no longer operative. The ease with which most companies can scale their interest down by 1 to 2% resulted at first in the popularity of refunding operations, but latterly, it has been felt that the finances of the leading corporations would be less subject to criticism if their structures were simplified, and the effect of earnings on equities easily discernible and undistorted.

As the rails clean up their position, and their common stocks become a medium of investor interest, and as common stock financing revives, we may expect to see an epoch of equity financing. This would create some difficulties for our life insurance companies who are required by law to confine themselves to obligations with some specific guarantees, but some liberalization of the investment statutes for them and other trustees must occur if the supply of obligations tends to diminish to excess. It is possible that we are entering upon an age opposed to debt. The Investment Bankers Association forecasts seem to confirm this view. An unwieldy government debt is resented and is a poor "climate" for corporate debt.

It must be remembered that our giant corporate debts were mostly incurred when government debt in America was all but unknown, that is from 1878 to 1914. The effect of this reduction of debt charges must be to smooth the differences between peak earnings and deficit earnings of the rails and thus increase the quality of stock investments. The operating utilities will follow this tendency: the holding companies in that field, are, of course, in a liquidating situation as a group, and are not relevant for market future.

For a long time industrial corporations found it difficult to float bonds. They did not enjoy the "safety" of a monopoly or a franchise or privilege, and were looked down upon. Today industrial bonds of prime companies rank next to governments for credit. But the largest corporations can only reduce their debt: it has been shown that the largest hundred industrial corporations have for twenty years basically supplied all their replacement and growth needs by internal reserves. This indicates that the age of industrial corporation bond financing, which never flourished too much relative to other bond issuers, will probably become a mere trickle. We are more likely to see equity financing for the smaller companies and a constantly growing assets position back of the larger companies as they reduce their debts and increase reserves.

Selected Utility Issues

(*Continued from page 475*)

for forty-six years. A liberal proportion of earnings is assigned to depreciation and maintenance. The stock is listed on the Boston Exchange, the record low being 19½.

Public Service of New Jersey should be considered as a holding company stock although it is frequently compared with operating company issues. The company controls Public Service Electric & Gas and Public Service Coordinated Transport (which operates a large bus and street railway system). The transit end of the business was formerly considered to be a handicap but the parent company has greatly strengthened the subsidiary's financial set-up in recent years and substantial write-offs have been taken. Some time ago SEC agents gave the system a combing-over but nothing adverse has as yet occurred as a result of this investigation. Chairman McCarter issued a strong rebuttal to the implied SEC criticism. While the company has been controlled in the past by United Gas Improvement, the latter company recently divested itself of most of its stock through distribution to its own stockholders. United Corporation, which was a large holder of UGI stock, has now become the largest holder of Public Service, hence the latter continues to be a holding company subsidiary and as such subject to SEC jurisdiction. Federal income and excess profits taxes made a huge hole in the company's share earnings last year, since there is considerable leverage in the system capital set-up.

North American Co. is one of the most "solid" of the holding company equities because of the extremely conservative capital structure. For many years it has conserved cash by paying dividends in the form of security holdings. The company has been fighting in the courts the SEC "death sentence," which stipulated that substantially all properties other than the Union Electric System (Missouri) should be disposed of, but due to failure to obtain a quorum the Supreme Court has thus far refused to review the adverse findings of a lower court. Recently President Shea indicated the company would probably accede to the SEC order. Liquidating value for the common stock is estimated at around 23 compared with the current market around 18.

American Gas & Electric is technically an Electric Bond & Share subsidiary, but has an independent management, and its capital set-up is much stronger than any other EBS holding company. The common stock has always been classed near the top of the list of holding company equities and almost on a parity with the standard operating company issues. Last year the company was hurt by the new tax law, due to technical factors beyond its control, but earnings should now remain stable. The stock returns a relatively low yield but the current dividend rate seems well protected.

American Light & Traction control several important natural gas distributing companies in Michigan and Wisconsin. It has an excellent dividend record (payments for 39 years) and the current rate is conservative in relation to earnings. The management has indicated its intention to dissolve the company and liquidating value may work out around 23-5, it is estimated.

American Water Works & Electric was the first important holding company to submit an integration plan to the SEC and to receive the Commission's tentative approval. While overall coverage of system charges and preferred dividends is not very large (1.16 for the 12 months ended March 31) earnings seem relatively stable. The company did not obtain the tax benefits which certain other holding companies were able to secure from the 1942 Tax Act; in the twelve months ended March 31st the system had to accrue about 15.4% of gross revenue for Federal taxes, as compared with only 7.3% for the Associated Gas & Electric system.

Columbia Gas & Electric offers an attractive yield, considering the relative degree of safety for the dividends. Overall coverage of charges and preferred dividends was 1.29 in the twelve months ended March 31st. The first quarter income statement showed a balance after charges amounting to more than double last year's figure. There have been some questions raised from time to time regarding the adequacy of the company's natural gas reserves in the Appalachian field but present and proposed construction of pipelines from mid-west and southern fields should take care of any future deficiency in the Appalachian supplies, which are being heavily drawn on at present for war purposes. While the figures do not appear on the balance sheet, it is understood that Columbia maintains a reserve for preferred dividends, which should continue payments through any temporary irregularity in earnings. Eventually the gas and electric properties may have to be separated to conform to the Utility Act, but values should remain ample to take cake of preferred stockholders—who might in fact benefit by the break-up. Bonded debt has been substantially reduced in the past year.

Electric Bond & Share preferred stocks have an estimated liquidating value of around $200 a share, or about 2½ times the present market price, although "subordination" of some holdings in subsidiaries might reduce this value considerably. Electric Bond has a large backlog of cash and high-grade securities, in addition to its more speculative portfolio, and it seems likely that the present price of the preferred stock would be covered by assets under almost any adverse conditions. Income is insufficient to cover the preferred dividend rate (due to the large holdings of idle cash and non-dividend paying stocks and warrants), but it appears the intention of the management to continue dividends, since there is a substantial earned surplus ($61,064,965) on the books. The company recently obtained SEC permission to use $15,000,000 cash

to retire preferred stock in the open market.

Engineers Public Service is faced with a dissolution problem similar to that of other holding companies. While it has thus far not acceded to SEC demands for disposal of properties, it is following a policy of reducing senior securities. Stock holdings in El Paso Natural Gas are to be offered, together with cash, to holders of the three preferred stocks if the SEC approves (tenders being filled by lot). Current overall coverage of fixed charges and preferred dividends is 1.18, a slight increase over last year.

Philadelphia Co. controls the important Duquesne Light Company in Pittsburgh. Overall coverage of charges and preferred dividends of 1.53, which make the issue appear outstanding in our list. It is controlled by Standard Gas & Electric, but the top company will probably be dissolved eventually.

West Penn Electric is a subholding company in the American Water Works system. The stock offers a higher yield than the parent company's issue and the overall coverage is somewhat better.

20 War-Active Companies Financially Ready for Peace

(*Continued from page* 455)

augmented inventories, necessitated by a large volume of war work. Cash position was strengthened materially with cash and securities now standing at $10.88 millions compared with current liabilities of $17.07 millions. Of current assets of $27.31 millions, inventory amounted to $12.44 millions, largely covered by Government orders. Post-war reserves amount to $2.56 millions. Since the great bulk of needed plant additions was paid for by the Government and leased to the company, the latter's plant item did not increase materially despite very extensive war work. Net plant at the end of 1942 amounted to $8.29 millions, leaving the company with virtually no inflation of its cost structure. This together with the absence of debt augurs well for its post-war outlook. Book value amounts to $31.58 and net quick assets to $16.27 per share, as against a current market price for the common of about 44.75.

Timken-Detroit Axle Co., another important factor in the automotive field and likewise conducting its important war work in Government-owned and leased plants, has preserved a strong financial status despite the need for considerable additional funds. Last year, a $10 million debenture loan was negotiated with two insurance companies of which $1 million, falling due this year, has been made current. Cash and securities amount to $22.6 millions against current liabilities of $23.11 millions. Inventories are $15.6 millions. Post-war contingency reserve, created from earnings, amount to $1.77 millions; additionally an operating reserve of $1.34 millions was set up. Also, there is a post-war tax credit of $870,000. Relatively little was spent on plant since the war and net plant appears conservatively valued at $4.74 millions. Book value of $20.86 per share and net quick assets of $15.03 per share compare with a current market price for the common of around $29.75. Annual interest charges of $270,000 on the company's long-term debt appears insignificant in relation to average pre-war earnings.

Borg-Warner thus far has weathered the war period without recourse to borrowing in spite of substantial capital requirements for war work. Not only that but a liberal amount of working capital was preserved and a stand-by loan agreement of $15 millions was not made use of so far. The company has cash and securities of $36.92 millions against current liabilities of $51.4 millions. Inventory, largely covered by Government orders, amounts to $24.44 millions. Post-war contingency reserves stand at $4.50 millions. Since Government assistance was provided in building and equipping facilities for war work, the company's own plant expenditures remained moderate; in 1942 they came to $2.85 millions. Total gross plant is carried at $27.60 millions and net plant at $15.93, indicating no serious expansion of the company's cost structure. Working capital amounts to $31.62 millions; net quick assets are $13.50 per share as against the current market price for the common of around 37. The company has a post-war tax credit of $1.55 millions which, added to reserves, should constitute adequate provision against any contingency arising from transition to peace work. In view of the company's

liquidity, its excellent trade position and diversification of production, a promising post-war future appears assured.

Another company that promises to emerge financially strengthened from the war period is Fairbanks, Morse & Co., a leading maker of industrial equipment whose capacity is now virtually 100% absorbed by war work. The company last year retired the remainder of its outstanding funded debt, leaving a capital structure composed only of a relatively small number of common shares. Working capital is fully adequate for the substantial volume of war work undertaken. Current assets amount to $38.59 millions; thereof $9.54 millions are cash and $15.98 millions constitute inventory, largely counterbalanced by war orders. Contingency reserves amount to $1.81 millions. Fixed assets, after depreciation, are carried at $9.84 millions, showing no marked expansion traceable to war requirements; in fact, the plant item is somewhat less than in 1941. Book value is $47.06 per share and net quick assets $23.89 per share, compared with a market price for the common of around 37.75. Since the company's war output consists primarily of the same type of machinery and equipment made in peace time, re-conversion costs should be limited and finances appear fully adequate to go agressively after post-war markets.

The few examples discussed, and the many more whose statistical record is tabulated in the accompanying table, tend to show that financial readiness for peace production is no small factor in present-day corporate thinking. This is illustrated by virtually every balance sheet. But often provisions against future contingencies are not fully adequate, due in many cases to the absence of a suitable yardstick. In addition, uncertainty over Government policy is a major deterrent to suitable financial precautions. Hence such securities deserve all the more merit where management has elimited all doubts by adhering to conservative rather than merely adequate financial policies.

Three Sound Security Portfolios

(*Continued from page 459*)

112. Philadelphia Company's position is far better than in the thirties. Chesapeake & Ohio common has been selected after the really bargin-provoking decline which an unselective market conferred on it, thereby making a present of a true opportunity to investors. It is in a position to pay the $3.50 dividend for several years, and the company has so improved its investment status that only market hesitations carried over from a remote past can account for its attractive yield. American Smelting & Refining has had the fate of the copper and silver list generally, long neglect, slow and laggard market action and an easy decline on peace rumors. It is likely to surprise the investment market by paying its dividend for years, especially with the export situation after the war.

To select investments for appreciation at this juncture may seem to veer over to the optimistic side but the problem here is not so much which investments will surpass the market as a whole, as to select bonds and stocks which will yield an overlarge income, while still advancing very well in the next phase of market recovery. For that wait, the investor has to be compensated by a handsome interim income.

Only 30% of this list, necessarily, is in bonds. Atlantic Coast Line has been chosen for the first and only domestic bond, because the Florida and East Southern Coast has shown a consistent change in industrial organization, due partly to the war but also to a secular tendency to increase factory employment in that area. Hence on the basis of raw and intermediate shipments for the newer factories, consumers goods for a newly employed population, and the certain growth of Florida as a residential state, a yield of 6.36% on the 4½s is cheap.

The Mexican 5s have been selected on the basis of the recent repayment agreement, which has been hailed as a new era in Latin American credit. The dollars obligations are domiciled here on a domestic basis, but any rise in the peso must also add to the dollars value of these bonds. Hence the peso, which sells *sub rosa* for near its old parity, is officially under-valued, and as the bonds are now on a basis where Mexico would not even notice the cost of their service, they must be cheap merely because they bear the name, "Mexican." If they were called United States Adjustment Bonds for Mexican Treasury Obligations, the investor might view them for what they are.

Australian 5s are manifestly underpriced. The only reason they sell so cheaply is first the still wavering feeling of the Japanese threat and secondly the cost of the war to Australia. In view of their ample balances in London and the new and extensive organization of the country, there is no serious reason why its obligations should sell so far below Canadian bonds. It should go to par, especially as the European War nears its close. The yield is abnormal for a government bond of such quality.

Among the preferred stocks Jersey Central Power & Light, although not a very extensive earner, has been picked because it continuously earns its dividends with a fair surplus, even in poor years, and because it is in a growth area and in a state where radicalism has few friends, with reference to local utilities.

Among common stocks, Caterpillar Tractor has been chosen because it will earn somewhat more in peace than in war and the market acted hastily and marked it down on a misapprehension that it was a war stock. Nash Kelvinator is a small omnium of consumer's durable goods and in good position, Briggs & Stratton has a really excellent earnings history and fine prospects, as has, to a lesser degree, Bohn Aluminum (whose casting process has possibilities) and U. S. Playing Card whose last earnings statement shows that dividend policy from now on should be upwards.

Another Look At —

(*Continued from page* 480)

This should materialize with the prospective boom in the consumer durable goods industries; additionally the container, oil, building and metal fabricating industries are among the companies major outlets where a favorable demand situation appears assured after the war.

Penney (J. C.) Co.

Early in the year, we spoke quite optimistically about the prospects of this well-known department store chain and we were not disappointed. From about 81, it rose to a high of 100 and has been holding well within minor fractions of that level. While for the duration, earnings may not again reach last year's excellent level of $6.58 per share, they nevertheless should continue at a very satisfactory rate provided that replacement of merchandise does not become much more difficult, an eventuality not now foreseen. Demand prospects continue highly favorable reflecting greatly augmented purchasing power of the public. While replacement of merchandise poses a problem, in a good many lines, the company has sizable inventories which should stave off sales declines at least until later in 1943. Though gross margins are being pared by price ceilings, operating spreads are expected to be fairly well maintained with the help of operating economies and the shift of emphasis towards higher margined style lines. Long-term prospects indicate further earnings growth in line with the company's expansion policy. The more immediate outlook justifies expectations of continuance of the regular $3 dividend, plus the usual $2 extra, placing the stock on a 5% yield basis. This together with the concern's strong financial position renders the stock attractive on an investment basis. To those interested in safety and yield, we suggest continued retention; inherent appreciation possibilities afford an added incentive though over the nearer term, further market progress may not be very pronounced.

Alpha Portland Cement

This stock, recommended earlier this year as an attractive long-term speculation, in our opinion still merits attention on this basis. It advanced from about 17 to 23, and is currently selling at 22⅞, yielding 6½% on basis of last year's dividend of $2. The company's sales should hold at relatively high levels through mid-year. Thereafter, with the major part of the Government's construction program completed, cement demand is likely to drop and lower operating income is in prospect. However, while earnings will decline from last year's $1.66 per share, the current dividend rate may be continued.

Alpha is an efficient producer and its showing has been consistently better than average. However, our liking for the stock, at this juncture, is primarily based on post-war prospects when cement demand should rise tremendously with the revival of private building construction and the undertaking of a huge Government construction program to stabilize employment during the post-war transition period. On either count, Alpha should be assured of a high and well sustained operation rate and well stabilized earning power for a number of years. For this reason, we favor retention of the stock despite the fair profit already realized since early this year. While the earnings outlook for the remainder of the war period is less promising, we do not believe it may lead to important price reactions, considering the excellence of future prospects, although of course one can never be positive in this respect. Even so, a policy of retention hardly implies any sacrifice in view of the yield. The firm's financial position is excellent and very liberal depreciation and depletion charges were consistently made in the past. As a result, the company could afford frequent dividends in excess of net earnings without impairment of its finances and was able to retire over $2 millions of preferred stock.

Divergent Trends in Second Quarter Earnings

(*Continued from page* 457)

year ago. Gross mounted substantially from $34.45 millions to $41.61 millions but taxes rose commensurately to $23.06 from $19.01 millions, leaving net per common of $1.04 against $0.82. Thus while gross income rose some 20%, the gain in net was little more than 2.5%. Even so, net earnings for the full year should materially improve over the $3.44 per share realized last year.

Pre-tax income of Wm. Wrigley, Jr. Co., during the June quarter, rose to $8.08 millions from $6.12 millions in the preceding year, reflecting the amelioration of the supply situation which earlier was temporarily handicapped by the shipping shortage. Being fairly favorably situated as to taxation, tax charges were $4.24 millions against $3.16 millions, leaving net earnings of $3.57 millions or 95¢ per share against $2.96 millions and 74¢ per common. In 1941, a net profit of $4.43 millions was realized on a gross of $13.10, with taxes amounting to $2.91 millions.

National Distillers, in the first half year, would have netted more than in its biggest full year, 1934, were it not for a huge increase in federal taxes which rose by $5.1 millions. As it was, net profits were $4.63 millions equal to $22.27 per share, or nearly twice last year's of $2.47 equal to $1.21 per common. This showing of course, reflects the tremendous spurt in liquor sales, mainly from existing inventories so that in effect, the Government by virtue of the high taxes imposed on the rising operating income is getting part of the company's working capital. Were it not for the subsidiary income from alcohol sales, the company's results would be in the nature of a liquidation, pure and simple, since new liquor production has been prohibited since last October. Voluntary rationing of liquor, however, is now taking

effect which should be reflected in contracting earnings from now on. This represents a desirable stabilizing influence as maintenance of liquor stocks will vastly alleviate the industry's post-war problems.

General Steel Castings, with a decline of pre-tax income of $1.07 millions, paid $1.65 millions less in taxes for the first half than last year. Final net was $1.70 millions compared with $1.04 millions, hence a higher net was realized from a lower pretax income, by virtue of abating taxes. Pretax earnings were $8.11 millions against $9.18 millions, and operating profit amounted to $9.12 millions against $9.97 millions. This is an extreme illustration of the cushioning effect of declining tax liability on net earnings.

While, as previously mentioned, the gain of second quarter corporate earnings over those of a year ago appears to average about 30%, a cursory glance at a list of recent reports shows wide variations in percentage gains. A few examples illustrate the point. In the higher brackets, for instance, are such companies as Worthington Pump whose per share earnings advanced 38%; Nat. Distillers rose 88%, National Cylinder Gas 112%, Shell Union Oil 45%, Underwood Elliot Fisher 34%, Libbey, Owens Ford 83%, Mathieson Alkali 32%, Caterpillar Tractor 40% and Bayuk Cigars 30%. In the middle brackets are DuPont with an increase of 17% and United Biscuit, also 17%. On the other hand, U. S. Pipe & Foundry registered a decline of 49%, Howe Sound 12% and Crucible Steel 4%. General Electric showed an advance of only 1%, National Cash Register of 5%, Budd Wheel 2% and Sylvania Electric Products of 3%.

The report of the U. S. Steel Corporation, just come to hand, shows up interesting trends. The concern earned $31.1 millions in the first half year against $33.9 last year, and $61.4 millions in 1941. In other words, the amounts available for stockholders are not increasing as the result of the quickened tempo of the war but quite the contrary. On the other hand, it is noteworthy that the increased cost of labor which totaled $74 millions more than last year, accounted mainly for a decline of $64 millions in the corporation's tax liability. This is a condition which is becoming fairly widespread. Net profits for the first half, on a per share basis, were $2.12 against $2.44 last year; for the June quarter $1.08 against $1.43. During the first half, the wage bill reached the huge total of $308 millions compared with $356 millions last year. Federal taxes declined to $52.8 millions from last year's $117 millions. The corporation, incidentally, deducted from earnings another $12 millions, to be added to postwar reserves, the same amount as in 1942.

Among the few steel companies showing higher second quarter earnings is Acme Steel with net per share of $1.55 against $1.16 in the preceding year's period. Substantial gains were also registered by National Acme, a machine tool concern, which netted $1.21 compared with 44¢; Dupont earned $1.16 per share against 87¢, Minneapolis-Honeywell $1.11 against 61¢ and Sharon Steel $1.05 against 79¢. Other outstanding gainers were U. S. Playing Card Co., Worthington Pump, National Distillers, Union Carbide, American Distilling and Crosley Corp. The latter's showing is truly surprising with net per share for the first half of $4.86 against 70¢ in 1942. Net earnings for the six months rose to $2.65 millions from last year's $381,000, from sales of $42 millions against $12 millions. It seems that Crosley, active in various fields of war production, has really found its stride; the company, of course, is in a favorable position relative to taxation.

On the other hand, declines, where shown, were on the whole moderate. Steels and minings were among those where declines predominated though a number of socalled "war securities" were also earning less. U. S. Pipe & Foundry showed a rather sharp drop in first semester earnings to $0.88 from last year's $1.73. Crucible Steel reported $3.12 per share against last year's second quarter net of $3.96. Jones & Laughlin and Youngstown Sheet & Tube also reported less though the decline of the latter was small. Among those who gained, the remarkable recovery of Atlantic Refining, from a deficit last year to a net profit of 90¢ per share for the first half of this year is noteworthy. On the whole, gains *percentagewise* were much more pronounced than declines, and here again companies with small capitalization scored best as can be readily seen by the accompanying table.

It is conceivable that subsequent second quarter reports will somewhat lower the average percentage gain of about 30% thus far indicated and a final score of some 25% is not unlikely. This would closely conform to the official estimates mentioned in our previous article, but everything considered, still represents a favorable showing. What is it likely to mean in terms of future dividends?

An unequivocal answer, of course, cannot be given but judging by previous trends and considering the flattening out of production now going on, prospects point to an increasingly conservative dividend policy on the part of the majority of corporations. This trend no doubt will find further support in the world-political and war developments of recent days. While dividend disbursements during the first half of the year varied widely with good increases in some industries offset by contracting returns to stockholders in various others, the over-all picture shows only a minimal change on the plus side. Compared with last year, disbursements during the first half were sharply stepped up by the aviation industry (plus 98.5%) amusement industry (27.6%), railroads (31.2%), rubbers (70%), business and office equipment (28.2%). On the other hand declining returns were made by the garment industry (minus 12.3%), paper and publishing (14.8%), steels and iron (5.9%), tobaccos (10.3%), machinery and metal (4.1%), mining (9.9%), chemicals (7.6%).

It seems that at this juncture, many factors militate against a higher dividend trend, and even continuation of relatively liberal war-time payments. The incidence of enlarged costs and wages was mentioned before as was the uncertainty created by the renegotiation factor. Added to this now is an even more powerful incentive to financial conservatism: the peace factor, and all it implies, having become decidedly more concrete in view of recent events in Italy. On the strength of all this, it appears that the period of rising dividends is over. Even in the case of those enterprises where earnings continue high, the rate of return is likely to stabilize while caution is bound to dictate lower disbursements by those who are up against serious post-war problems.

Answers to Inquiries

(*Continued from page* 485)

slightly, the company showing 35 cents per share as compared with 47 cents for the same period of 1942.

While the common stock appears moderately priced in relation to current earnings, it does not appear to have more than average speculative appeal due to the post-war uncertainties. Maintenance of company's production seems assured as operation of the new Bridgeport and Indianapolis plants was not fully reflected in 1942 earnings and an addition in the Bridgeport Fabricating Division is yet to be completed. Operating profits which were severely reduced through contract renegotiations in 1942, may be further reduced in 1943 but the additional impact should not be so severe that the company will have to reduce the current dividend rate.

While retention of this stock at current market price around 10¼ is counseled, on any appreciable advance in market price it might be advisable, in view of your large holdings of 800 shares of this stock, to liquidate a part of it and diversify your holdings.

The peace prospects while apparently good are not yet in an area where they can be valued.

As I See It!

(*Continued from page* 445)

be subjected to a Communist revolution.

I doubt very much whether the Germans will take any stock in Stalin's promises, because it is plain that they would only bridge over the gap between a democratic state and a totalitarian one—either as a part of Russia or affiliated with her.

Stalin has made no bones about the fact that his association with the United Nations is an alliance of expediency, only insofar as defeating Hitler is concerned. At no time has he cooperated with the United Nations in any way that would serve their collective cause. Nor has he, for one moment, relaxed his position of neutrality with Japan. He has concentrated entirely on Russian business.

How much his treaty with England is worth remains to be seen. Ivan M. Maisky, who has been Ambassador to England during the most critical times has now been appointed Vice Commissar of Foreign Affairs, having received the coveted Order of Lenin as a reward for his services. Stalin is tightening his diplomatic fences, prepared to fight to the finish.

The situation has now entered a critical stage with Stalin having set up his own post-war provisional government for Germany in competition with the Allies. This would have a tendency to broaden the post-war rifts between Stalin and the United Nations, which is unfavorable to say the least. Opposed by such experts in disorganization and terrorism we will have a job on our hands!

Before us, then, lies the Herculean task of solving the post-war problems of labor, foodstuffs and production on our own account—and that of the liberated peoples of Europe. In addition we still have to fight the war with Japan and, it would seem, almost alone. This is a time for all Americans to stand together, to put criticisms to one side, and unite to win the war as well as the peace.

What matter, therefore, if we disapprove of some of the policies of our government? Only God is infallible. Even the highly vaunted leadership in the Axis countries has proven to be unsound, despite its greatly propagandized talents and efficiency. Both Hitler and Mussolini ruined their countries—and the only difference between them is that Hitler had the mighty strength of the German Army back of him and Mussolini did not.

Our leadership, on the contrary, has never been glorified, nor has it had the freedom of movement that the one party control of the totalitarian countries would have given it. We have come as far as we have despite opposition and despite compromise; we all have a share in the mistakes as well as the victories.

If we, as American citizens accept our responsibilities under our democratic form of government and cooperate fully with our President in his difficult tasks, Democracy is bound to win over Communism. And win we must, if our institutions, our liberties and our form of government are to survive.

For Profit and Income

(*Continued from page* 477)

course of Moody's spot commodity index has been irregularly and gradually downward for several months; and it is now closer to the year's low than the year's high. Thus far, the evidence is slight. Whether it will prove to have been the preliminary symptoms of "peace caution" remains to be seen. When peace looms it may dawn on people that the total supply of commodites—including vast surplus inventories in the hands of the Government—is larger than they had dreamed. Judging by recent developments in Italy, peace may "loom" surprisingly soon.

The action of lard in remaining under ceiling price was the first index that the price situation in commodities was overrated, other favorites like rye, may soon follow suit.

, if we
policies
God is
vaunt-
untries
despite
talents
er and
untries
between
d the
German
ussolini

e con-
orified,
lom of
ty con-
untries
e have
despite
ompro-
in the
ories.

ens' ac-
under
govern-
with our
tasks,
in over
must, if
ies and
are to

me

477)

ommod-
rly and
several
oser to
year's
ence is
rove to
symp-
remains
ooms it
at the
es—in-
ntories
ment—
eamed.
pments
n" sur-

naining
he first
tion in
, other
on fol-